

WORLD TRADE NEWS

Venezuela signs oil contract with Brazil

BY JOSEPH MANN

VENEZUELA'S Ministry of Energy and Mines has announced that Brazil will purchase Venezuelan oil under a new contract valued at \$150m. a year. The deal is significant following a period of poor relations between the two countries.

Details were made public during a three-day official visit by Brazil's Minister of Energy and Mines, Sr. Shigeaki Veika, and call for quadrupling the present level of oil sales to Venezuela's South American neighbour.

Under the agreement, the Venezuelan State oil monopoly, Petrobras, will sell a total of 34,000 barrels of petroleum a day to its Brazilian counterpart, Petrobras. Petrobras is to purchase 20,000 barrels per day of medium weight Venezuelan crude, starting in July of this year, under a one-year, renewable contract. The Brazilian oil company will also purchase a bulk shipment of 1.2m. barrels of heavy Boscan-type crude and fuel oil, to be delivered over a short term, and is extending its current agreement to buy 8,000 b/y of crude for Brazilian refineries.

The agreement was signed by Venezuela's Energy Minister, Sr. Valentin Hernandez, and the Brazilian Minister, Sr. Uelki. A Joint Government communiqué said Venezuela will also study the possibility of buying excess production from Brazil's petrochemical industry.

The purchase agreement in itself does not constitute a large contract for Venezuela, which exports an average of 2m. barrels of petroleum per day. It is important, however, since it represents still another Government-to-Government agreement, which should permit Venezuela to depend less on the marketing networks of the multinational oil companies.

U.S. move on motorcycles

BY DAVID BELL

WASHINGTON, April 23.

THE U.S. Treasury Department has concluded that four major Japanese motorcycle manufacturers have been selling their machines in the U.S. at less than fair value after a six-month investigation.

The Treasury inquiry was in response to a complaint filed last July by Harley Davidson, the U.S. manufacturer, which now has only about 8 per cent. of a market that it once dominated.

The department's findings will now be considered by the U.S. International Trade Commission for their part, the Japanese which must decide if the Japanese imports have damaged the domestic motorcycle industry.

If the ITC concludes that damage has occurred, then the Treasury will be able to increase tariffs on imported machines. But the margins of "dumping" found by the department are so small that there must be some question as to whether the ITC will find that material damage has occurred.

The Treasury said that its findings indicate that Honda has sold its motorcycles at 1.4 per cent. below cost, Kawasaki at 1.9 per cent. below, and Suzuki only 0.7 per cent. below.

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Saudi Arabia and France may sign \$3,500 million arms deal

... would dwarf anything the French have won so far in the Arab world.

Fair dealing gives Aden business a boost

N. Yemenis puzzle over the missing American firms

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Japan ship order by Sweden delayed

By William Duffin

STOCKHOLM, April 23.

BROSTROEM, the Swedish shipbuilding group, has postponed delivery of two new oil tankers to Sweden, the Japanese Mitsui company because of anticipated overcapacity on the North Sea line.

Originally scheduled for delivery in the first quarter of 1979, the ships will now be taken over by Swedish Lloyd in March and July, 1980.

The Brostrom decision has been indirectly prompted by Swedish State shipbuilding subsidies, which have enabled a newly established company to order three Ro/Ro ships for use between Britain and Sweden.

The new company, Nordjoeft, which is understood to have a link with Volvo, the Swedish automobile manufacturer, would increase user capacity on the Britain-Sweden run by 60 per cent. according to Brostrom.

Brostrom last week reported an increase in its losses during 1977 and proposed to pass the shareholders' dividend for the fourth year running.

In a press release the Gothenburg shipping group recalls that the Swedish Shipowners' Association last month asked the Government to reconsider its financial backing for the three Ro/Ro ships ordered by Nordjoeft.

By postponing delivery of the two new Ro/Ro vessels for Swedish Lloyd, Brostrom hopes that the shipping situation will be clarified and the total capacity on offer will be restricted to conform more closely with the real demand for transport services.

Swedish Lloyd currently operates two Ro/Ro ships between Britain and Sweden.

The postponement does not affect the six Ro/Ro vessels ordered by Brostrom from Mitsui for the Mediterranean trade and the one large Ro/Ro vessel intended for the Barber Reef Sea shipping pool.

SHIPPING REPORT

Mobil back in the market

By Our Shipping Correspondent

MOBIL, having recently announced a decision to lay up three or more of its own large tankers, was back in the market this week with an interesting time charter for a 288,000 dwt unit.

The oil company has taken the vessel, the Atlantic Express, for 12 years at \$1.20 per ton dwt, with escalation clauses. The deal also includes an option to purchase the ship after five years at a price which has not been disclosed, but which brokers believe to be in the region of \$13.2m.

This example of a charterer squeezing the last ounce of advantage out of a rock-bottom freight market is just one more indication of why spot charter rates for tankers continue at levels utterly uneconomic for owners.

VLCs from the Gulf continue to fix last week at Worldscale 18.25 and there was also a rare indication of why spot charter rates for tankers continue at levels utterly uneconomic for owners.

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Nissan establishes import subsidiary

BY CHARLES SMITH

TOKYO, April 23.

NISSAN MOTOR Company, the second of Japan's big two car makers, has announced the establishment of a trading company subsidiary to handle imports of car components.

Ryos David writes: A drive to persuade Japan's motor industry to step up purchases of British car seat material from the British company Jersey Kapwood.

The new concern, Nissan Trading Company, will import car seat material from the British company Jersey Kapwood.

It will also import tyres from Michelin and although Nissan says it has signed a contract with Michelin it declines for the moment to reveal details.

Over the long term Nissan Trading can be expected to buy some engine or electrical components from European suppliers but before this can happen time will be required for testing.

The new company, according to the announcement, will continue Nissan's search for overseas parts and components suitable for use in Japanese cars.

Nissan Trading has an authorised capital of ¥320m. and was registered on April 10.

Candura Farbrics, part of Tootal, has had fabric on sampling trials with several leading Japanese motor companies and hopes orders will emerge from the trials.

Jersey Kapwood has now completed six months deliveries to Nissan, Toyota, and Honda.

Nissan and has recently signed a new contract for a further year's supply of fabric.

World Economic Indicators

TRADE STATISTICS		Mar. 78	Feb. 78	Jan. 78	Mar. 77
U.K. £bn.	Exports	2,530	2,599	2,625	2,489
	Imports	3,094	2,919	2,959	2,728
	Balance	-0,164	+0,180	-0,334	-0,239
France Frs.bn.	Exports	31,133	28,611	26,877	26,242
	Imports	29,941	28,547	28,731	27,414
	Balance	+1,192	+0,064	-954	+1,372
		Feb. 78	Jan. 78	Dec. 77	Feb. 77
West Germany DMbn.	Exports	21.4	21.3	25.4	21.0
	Imports	18.7	19.4	21.2	18.3
	Balance	+2.7	+1.9	+4.2	+2.7
Japan \$bn.	Exports	7,260	5,880	6,449	5,773
	Imports	4,930	5,205	5,774	4,738
	Balance	+2,330	+0,375	+2,675	+1,035
U.S. \$bn.	Exports	9,922	10,014	11,007	9,807
	Imports	14,439	12,393	13,123	12,483
	Balance	-4,517	-2,379	-2,116	-2,676
Holland Fls.bn.	Exports	8,662	9,317	9,310	8,655
	Imports	8,886	9,365	9,419	9,089
	Balance	-0,224	-0,048	-0,109	-0,434
Italy Lirebn.	Exports	3,051	2,735	4,469	2,702
	Imports	3,133	2,863	4,534	3,201
	Balance	-0,082	-0,128	-0,065	-0,499
Belgium B.Fr.bn.	Exports	120,476	107,578	119,414	122,184
	Imports	117,578	124,552	124,654	118,422
	Balance	+2,898	-16,974	-5,240	+3,762

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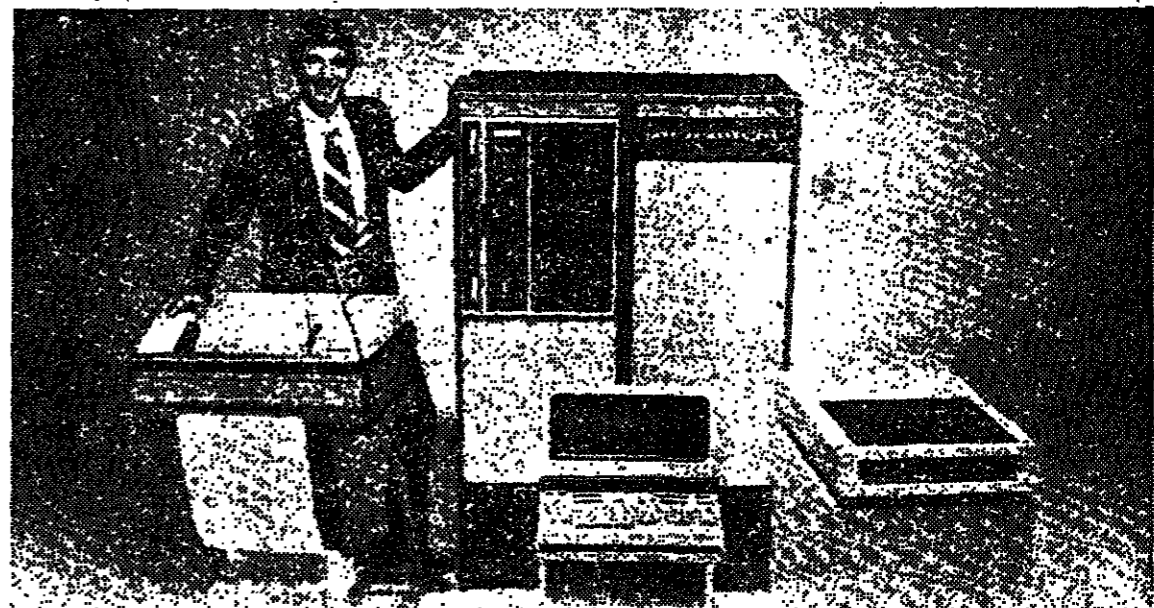
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HOME NEWS

Islands' tax haven status 'complex'

BY RUPERT CORNWELL, LOBBY STAFF

THE TWO Labour MPs back from a week's fact-finding mission to the Channel Islands plan to have their recommendations on what to do about the Islands' tax haven status ready to go before the party's national executive by July at the latest.

It is apparent, however, that the situation they found was complex enough to convince them of the need for further detailed research, and perhaps another visit—though they are hoping, with rather less public attention than they received last week.

The findings of the two MPs, Mr. John Cartwright (Woolwich East), of the party's Centre-Right, and Mr. Arthur Latham, of the Left-wing Tribune group, are likely to fall into two parts: a factual description of the current position, and suggestions of what might be changed, and how.

Mr. Cartwright yesterday spoke of the difficulties which have clearly altered the views they held before the trip. "There is diametrically opposing evidence in some areas, and the issues are wider than I thought at the start," he commented.

Moreover whatever package that the Labour Party finally endorses will have its limits.

"We've got to draw a line between the things that the islanders can change for themselves, and the things that Westminster should do for the good government of the country."

Part of the problem, Mr. Cartwright made clear, was definition. Anomalies abound and the issues have not been tackled since the Kilbrandon report of 1973, and then only in a constitutional sense. As for the tax losses to the Treasury through the offshore status of the islands, this is still a mystery, although the estimate of up to £100m. a year is widespread, at least in the Labour Party.

The recommendations will have to fit in with the guidelines adopted as the most practical by the party itself: to reframe U.K. tax laws so that anyone moving to the islands would be taxed as though still resident in this country.

Mr. Cartwright emphasised the delicacy of the task by pointing out that not only did the prospect of extra revenue have to be seen in terms of the very small number of new settlers, but also weighed against the risk of upsetting their offshore banking role and value as an earner of funds for the sterling area.

Countryside group warns against farms projects

PUBLIC INQUIRIES should be held before farmers are awarded Government grants to help cover the cost of developments which may affect the landscape or wild life, says the Council for the Protection of Rural England.

The Council's proposal is made in evidence to the Ministry of Agriculture which is revising its medium-term food production targets for Britain. Without more consultation there will be "increasing contention and bitterness," it warns.

Mr. Christopher Hall, the council's director, said that he was mainly concerned about the impact of drainage projects aimed at raising production from pasture or arable land and ploughing in hill or marginal areas.

Such developments—which could greatly increase productivity, severely damage the habitat of wild creatures and plants and alter the landscape—were generally aided with generous Government hand-outs.

Revision of City Code planned

BY MARGARET REID

A COMPREHENSIVE revision of the City Take-Over Code, which lays down rules for the fair conduct of bids, is planned for next year, the Take-Over Panel says in its evidence to the Wilson committee on financial institutions.

The extent to which the panel will allow departure from the usual rules if a general meeting of a company's shareholders approve is one of the matters being reviewed.

Other candidates for change are the arrangements by which a bidder can sometimes close that part of a bid which is in cash earlier than an alternative in shares, and cases where the bid price is not fixed but is according to a formula related, say, to asset value when the offer closes.

The panel says "partial bids sometimes get a bad Press and the issue how they should be treated may well come to a head again."

Dealing with the relative merits of the self-regulatory system which it operates, and of statutory regulation, the panel reiterates its view that "it would not be possible to interpose a statutory body between the present organisation and the Government without forfeiting many of the advantages of the present system."

Instances of genuine insider trading—the wrongful use of confidential information by insiders to make personal profits—are described as extremely rare, on the basis of experienced of panel and the Stock Exchange investigations.

The panel says the rule introduced in April 1977 for temporary suspension by the Stock Exchange of share dealings in certain bid situations, has been very effective. The number of cases where it proved necessary to carry out an investigation into dealings after an announcement have been "very considerably reduced in the last 12 months."

Oil companies hit by U.S. policies

BY RAY DAFTER, ENERGY CORRESPONDENT

OIL companies are being robbed suggested that Dr. James Schlesinger, Energy Secretary, may release most of this withheld revenue and restore prices to their legal limit. It is a move linked to an attempt to gain Congress acceptance for President Carter's proposed crude oil equalisation tax.

It is claimed that the price ceilings fixed for U.S. oil production by the Energy Department will mean that between September 1977 and next month companies will have received \$1.6bn. less revenue than they could have been permitted under existing legislation.

The figures are published in a report on U.S. Energy Policy by stockbrokers W. Greenwell and Company. This points out that the "fundamental law of bureaucracy" has resulted in a labyrinth of controls on the U.S. oil industry.

The average wellhead price of oil produced in the U.S. is allowed to rise gradually to reflect inflation, but in recent months the Department has pegged the price ceilings at tens of cents below the statutory Royal Dutch/Shell group had a net equity interest in 150,000 barrels a day of this lower-priced oil.

Commercial vehicle sales increase

BY STUART ALEXANDER

COMMERCIAL vehicle sales in the first quarter are up nearly 10 per cent, on 1977, but the March figure of 30,384 was slightly lower than the same month last year, according to figures issued by the Society of Motor Manufacturers and Traders.

Market leader in March was British Leyland with 27 per cent (5,504), followed by Ford with 23.1 per cent, Bedford with 17.3 per cent and Chrysler with 7 per cent.

Importers took 26.5 per cent, compared with 16.9 per cent in March 1977.

Leyland also led the way in the light van sector, taking 36.9 per cent, compared with 24.4 per cent, by Bedford and 15.9 per cent, by Ford.

In the medium sector Ford took 31.7 per cent of a market reduced by 2.1 per cent, compared with last year. Leyland followed with 18.4 per cent, Bedford with 18.4 per cent, and Chrysler with 6.5 per cent.

Leyland was the narrow leader in the heavy sector with 21.7 per cent of the 5,479 total, with Ford on 21.2 per cent, Bedford on 16.5 per cent and Chrysler on 8.5 per cent.

However, it is known that the importers have made significant improvements in the over-28 tonne section of the market as the price-cutting war continues.

Volvo is still market leader with 20.2 per cent. Scania takes another 8.7 per cent, and the Swedish duo holds nearly 30 per cent of the market.

Seddon Atkinson, owned by International Harvester, has pulled up to 14.3 per cent, just behind Leyland on 14.5 per cent, and just ahead of ERF with 13.4 per cent.

Boeing 737 decision delayed by Government

By Michael Donne, Aerospace Correspondent

BRITISH AIRWAYS does not expect an answer from the Government on its request to buy 19 Boeing 737 short-range jets, worth £140m, until late May or early June.

Although it has notified Boeing that it has asked the U.K. Government for the aircraft, it has also made it clear that it will not be in a position to discuss contractual details or reserve production line positions until approval for a deal is given.

This is not likely to worry Boeing or the airline too much at this stage. The U.S. company retains almost daily contact with British Airways, through the latter's liaison office in Seattle, because the airline is already a big buyer of Boeing 747 jumbo jets using Rolls-Royce engines.

Any information on a prospective 737 deal can be exchanged informally.

The view in Whitehall is that while the 737 deal can be considered separately from the longer-term desire of the airline to buy some of the proposed new Boeing 777 jet aircraft, it is likely that they will be considered as part of a package deal involving also decisions on the future work programmes of British Aerospace, the national aircraft manufacturer, and Rolls-Royce.

The complexity of these issues involving a decision whether or not the U.K. supports a new European jet airliner programme, or accepts an offer of collaboration with Boeing for the 777, is such that the Government is bound to take several weeks in reaching any conclusions.

Massey changes
Mr. Peter N. Breyfogle, 42, has resigned as Massey-Ferguson's managing director of all European operations after a conflict over policy. He is replaced by Mr. Ralph Ramsay, director of regional operations in Asia, Africa and Australia.

Land prices up
Farm land prices rose by 2 per cent, between January, 1977 and January, 1978. A survey published yesterday by the Country Landowners' Association shows that the average value of agricultural land with vacant possession in the quarter ended January 31, 1978, was £25 an acre, £186 above the level a year earlier. The rise in tenant land was even sharper at £259 to £277 an acre.

Perth headquarters
General Accident is to build a £10m. head office in Perth. Work is expected to start in the second half of 1977 for occupation towards the end of 1982. The decision is seen as further evidence of the company's continuing commitment to Perth as the centre of its worldwide operations.

Inquiry delays
An investigation into delays by the Department of Environment in processing compulsory purchase orders is to be carried out by the Association of Metropolitan Authorities which is asking its members to come forward with examples.

Co-op profits
The Leicestershire Co-operative Society increased its trading surplus by 31 per cent last year, in spite of further reduction in gross and a relatively flat sales performance. Cash sales rose by 12.3 per cent, to more than £65m. The Society attributed its growth in profits to aggressive marketing and better control of expenses.

More thefts
Insured theft losses in Britain jumped by nearly 33 per cent last year, by £15.8m, in value to £64.2m, outstripping the inflation rate. Thefts from dwellings rose by over 35 per cent, from £22.4m in 1976 to £30.3m. The British Insurance Association says the figures "illustrate 'yet again' that thieves regard homes as easy prey."

Budget plea
The City of Westminster Chamber of Commerce is supporting the Confederation of British Industry campaign calling on Members of Parliament to press for major amendments to the Budget proposals for small businesses.

The proposals "do not begin to tackle" problems faced by small businesses, it says.

BANK RETURN

Wellington Inc. (4) or Apr. 19 (2) for week ending 1977

BANKING DEPARTMENT

LIABILITIES

ASSETS

ISSUE DEPARTMENT

LIABILITIES

ASSETS

LIABILITIES

ASSETS

LIABILITIES

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LIABILITIES

ASSETS

National Savings inflow up 80%

BY ADRIENNE GLEESON

THE INFLOW of National Savings rose by a massive 80 per cent, from £1.37bn. last year, to £2.47bn. This increase is part of the first time the total attributed to the raising of invested at the end of the financial year—excluding the trustee £70 of interest per account. The corresponding figure at the end of 1976-77 was £1.37bn.

Much of last year's increase went into the National Savings Bank's investment accounts, where rates continued high long after they started to fall elsewhere.

Despite a move last summer to limit individual holdings in these accounts to £50,000 in an attempt to block off receipts from institutional investors such as the building societies—receipts for the year amounted to £78.5m, compared with £20.5m in the preceding year.

National Savings Bank order of inflation declined and many accounts also did well, with novelty were off.

BNOC charters \$50m. safety and support ship

BY RAY DAFTER, ENERGY CORRESPONDENT

BRITISH NATIONAL Oil indefinite period. Corporation has chartered a new Seaway Swan will be one of \$50m. safety and support vessel most sophisticated vessels for work on its Thistle Field North Sea when it enters in the North Sea. On the face of it, it is a case of the contract goes against submarine vessels, the vessel is a British policy for the vessel finance, diving, heavy-lift, Seaway Swan has been built in one of the most expensive vessels in the world, and the charter rate is expected to be one of the most expensive in the world.

Lord Kerton, chairman and chief executive of the corporation, said after the week-end's naming ceremony at Port of London, that the re-designed ship, built by Ramage, Parsons and Kitching, is immediately available in the consortium, comprising, U.K. Nielsen/Seaway, Ramage-Parsons, Nordengruppen, Skibs A/S, Sten, Ivarsen, Roden, and agency cover for the Thistle Field, Scania Vabis and Sten.

The corporation, which is considering the long-term emergency cover for the Thistle Field, has chartered Seaway Swan for an initial period of only 23 days, although it has an option to extend the charter for an indefinite period.

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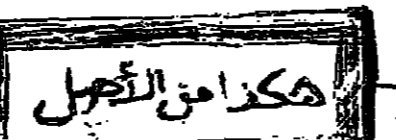
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LABOUR NEWS

Average family's food bill rises by 1.7%

	April £	March £
Dairy produce	475.93	475.01
Sugar, tea, coffee, soft drinks	179.66	182.67
Bread, flour, cereals	229.65	223.01
Preserves and dry groceries	84.18	84.27
Sauces and pickles	40.58	40.82
Canned goods	155.70	155.74
Frozen foods	177.43	177.49
Meat, bacon, etc. (fresh)	412.08	403.83
Fruit and vegetables	227.50	202.56
Non-foods	181.08	180.72
Total	2,163.79	2,126.17

stable. Yoghurt was also up in most shops and these increases offset the widespread reductions on eggs.

Not all the shops monitored had passed on the fall $\frac{1}{2}$ loaf increased announced by the bakers, just before the news about Spillers pulling out of the bread business broke. Several shops had only raised the price by $\frac{1}{2}$ p a loaf and others by $\frac{1}{4}$ p. In one shop, however, the loaf was marked up by as much as $\frac{1}{2}$ p, presumably reflecting the fact that the retailer was no longer prepared to sell it at a loss.

In most shops bread was selling well under the statutory maximum price of 28 $\frac{1}{2}$ p, pointing to the high level of trade discounts on which the bakers have blamed so many of the problems. In most shops, the price was nearer $\frac{1}{2}$ p a loaf and in some it was as low as 19p.

The biggest drop this month was in the bill for sugar beverages. The fall was almost entirely due to tea—the subject of a recent wrangle between the National Association and the Department of Prices.

Copies of the list now used by the FT grocery shoppers are available from Miss Ingrid Eden, the Financial Times, Bracken House, Cannon Street, E.C.4.

BRITAIN'S grocers and food manufacturers meet in Brighton today for their annual convention against a background of depressed food sales and increased competition among supermarkets.

A report published by the Institute of Grocery Distribution to coincide with the conference, says the amount of selling space devoted to food fell for the first time in 1977 with the opening of larger new stores failing to 'offset' space lost through store closures.

The number of new grocery shops opened last year was the lowest on record although the

trend towards opening larger stores continued.

The average new supermarket opened last year was over 2,000 square feet. The high rate of store closures continued with 19 branches of the multiple and co-operative grocery group closing every week. In the two years to May, 1977, the institute estimates that the number of shops operated by the big multiple group dropped by over a quarter.

The report suggests that in spite of the increased level of competition, supermarkets were able to improve their net profit margins last year.

MEASURES to aid shipping companies facing liquidity problems are expected to be announced by Mr. Edmund Dell, Trade Secretary, in the Commons this week.

They will centre on a statement by Government of its willingness to consider extending loan-repayment periods for owners in debt to British shipyards and whose loans were guaranteed by the Government under the terms of the Industry Guarantee Scheme.

The latest Government estimate of the amount of shipowners' debts for which it holds the guarantee is about £150m, of which about £400m might be required to satisfy the claims of the shipowners over the next 12 months. Shipowners with heavy exposure in depressed bulk markets and it increasingly difficult to meet their commitments.

It is known that a small number of companies has already made problems plain to Government through the Ship Mortgage Finance Company—the shipping arm of the Finance and General Council of British Shipping says, however, it has not requested and nor does it expect any kind of general subsidy scheme.

No new powers will be needed for the Government to offer moratoria to aid owners, but it is felt to be necessary to clarify the guidelines for offering help even in this limited form.

The main problems arising from a programme of moratoria are how to avoid giving help to companies whose collapse is not thought to be worth preventing, and how to prevent larger companies, such as P & O, from taking advantage on the grounds that their bulk ships are losing money, even though these losses are more than adequately covered by other areas of activity.

CHEMICAL INDUSTRY production is likely to remain depressed for the first part of 1978. The 4 per cent fall in output in the last quarter of 1977 compared with the third quarter was fairly general throughout the industry—only toilet preparations and fertilisers showed an increase. No improvement is expected until later in the year with the slow recovery in economic activity.

The official publication Trade

THE WALES TGWU overwhelmingly rejected the Government's offer of operation in a Phase Four pay policy at its conference in Llandudno, North Wales, at the week-end.

The conference backed a call by Mr. Ross Evans, general secretary of the Transport and General Workers, for a policy of "unfettered collective bargaining."

Mr. John Mahoney, of the Union of Postal Workers, was one of the few to oppose the motion. He gave a warning of the "economics of bedlam" if the next round of wage negotiations were conducted without any guidelines at all.

Mr. Evans, however, was quite unequivocal. "Let there be no misunderstanding where we stand. There will be no agreement on phase four as the TGWU is concerned."

"Free collective bargaining is the essence of the society we live in," he said. "Percentage wage increase guidelines, imposed at central level, were not contrary to TGWU, not least because the pay policy had created anomalies which could only be sorted out on the shop floor."

Equally, Mr. Evans said, it was nonsense to suggest that only Treasury officials could accept responsibility.

Mr. Emlyn Williams, South Wales president of the National Union of Mineworkers, said that the Government would be committing "political suicide" if it tried to push through a Phase Four.

In co-operating with the Government, the union had accepted responsibility for the burden of frustration and bitterness among their members. "The Government should not embarrass us by asking for a Phase Four."

The mood on pay policy was the same at a previous gathering for the Government. The conference otherwise had a distinct pre-General Election atmosphere.

Mr. Michael Foot, leader of the House of Commons, and Mr. John Morris, Secretary of State for Wales, both received standing ovations as they spoke to the conference. They thanked the Government's record and called for closer co-operation to head off the

BRITAIN'S second-largest, Civil Service union, comprising 105,000 non-industrial civil servants, seems likely to reject any form of Government pay policy for the next wage round.

The Society of Civil and Public Servants will consider a motion at its annual conference next month which calls for a 1979 pay settlement based on "common opposition to the imposition of arbitrary ceilings, and cash limits on public sector pay".

The motion, which is the major pay call the conference will consider, seeks liaison with other public sector unions on pay strategy, but rejects any discussion of overall pay ceilings with the Government, or any action through the TUC or otherwise.

A separate, stronger motion claims that neither the Government nor the Civil Service Department, which directly deals with civil service pay, can be trusted to honour pay agreements. It calls for the country's executive to withdraw from current pay agreements.

A LABOUR MP has proposed a three-point formula in a move to end the 10-week-old wages dispute at the Rolls-Royce aero-engine company in Coventry.

The dispute has closed two factories and made more than 5,000 employees idle.

The move was suggested by Mr. Geoffrey Robinson, MP for Coventry N.W., after local MPs had discussions with the management.

He proposed that the company should pay the full 10 per cent. wage claim by manual workers and negotiate the piece-work grievance on a separate basis.

Secondly, the modified pay offer could be discussed again by the negotiating committee and management should remove the factors that no extra money would be paid until the work-force returned.

Thirdly, he has urged an early meeting between the two sides.

The 10 per cent. pay claim now involves about 4,000 manual workers at two company factories in Coventry and nearby Ansty.

Because of a protest sit-in at one plant and a work-in at the other by the manual workers about 4,000 clerical and other employees have been laid off.

COURTAULDS man-made fibre plant at Coventry called on strikers to bring to a standstill to-day if a shop stewards' call for strike action is obeyed.

For seven weeks 32 shift workers at the company's carbon fibre plant have been on strike for more pay and improved housing and manning levels.

On Friday the 33 received dismissal notices following their rejection of a company offer.

Now all the 600 production operators at Courtaulds main factory have been instructed by shop stewards to withdraw their labour. They are expected to attend a meeting to-day to ratify the call.

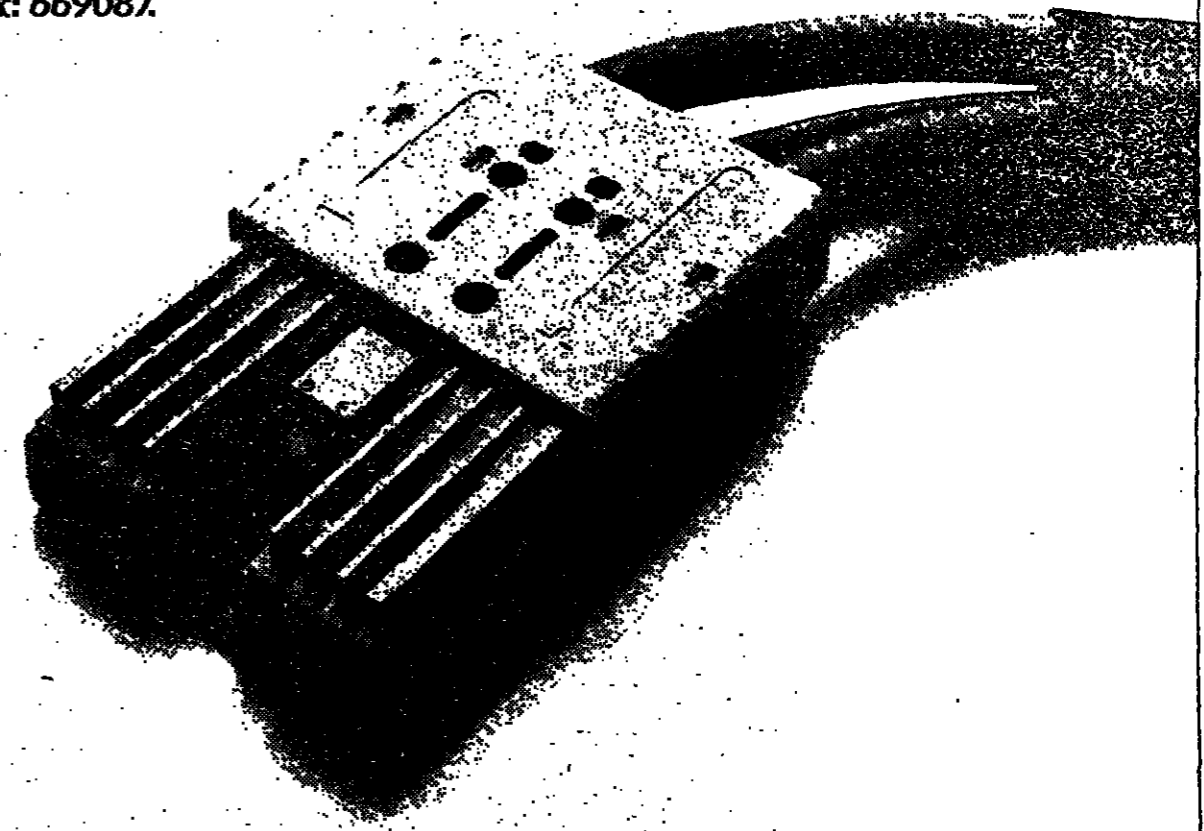
The battery electric truck at the end of this cable is rugged, tough, reliable and durable. Today's new breed of electric yard trucks are moving big loads in tough conditions. They'll handle any job up to 10,000 lbs – inside or out.

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Representative: Hans-Henning Erdmann

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Tel: 01-965 0611**

GRACE

Technical Page

EDITED BY ARTHUR BENNETT AND TED SCHOETERS

INSTRUMENTS

Seeks the levels of problem materials

RELIABLE and accurate level measurement of solids, slurries and liquids by non-contacting ultrasonic pulse transmissions can be carried out by equipment marketed by Hymatic Industrial Controls (Huntleigh Group).

Developed by the Milltronics Company of North America, the equipment will accurately and reliably measure levels in hostile conditions in the presence of abrasive solids or corrosive liquids. The level sensor has no moving parts in contact with the process media and the electronics are all solid state.

Installation is easy. The equipment is small and light and easily transportable.

Sensors are available for monitoring levels from 0.8 metres to 30 metres (12 feet to 100 feet).

The key element of this equipment is the company's patented "Ultrason" transducer. This beams a very narrow pulse of ultrasonics on to the surface level to be measured, and the time taken for the pulse to complete the round trip back to the transducer is converted, through solid state electronics, into distance. Since the signal from the transducer is very narrow it is easy to ensure that the beam is directed to avoid extraneous signals from protrusions in the tanks or errors caused by filling points or mixers.

Hymatic systems engineers believe that suitable applications for this equipment will be found within the coal handling and mining industry, and in petrochemical process plants, grain and cereal storage and handling systems, food processing and even cargo holds of ships.

Hymatic at Orchard Street, Redditch, Worcs B98 7DP, Redditch 67841.



Inserting a printed circuit into a millitronic ultrasonic unit.

PROCESSES

Cushions filled at highest speeds

CUSHIONS MADE of materials such as canvas, fabric and plastic for use particularly in the bedding and upholstery industry, can be filled with various forms of foam (block foam, polyurethane foam) and coil springs with foam surround, from a pneumatically-operated machine just launched by Anderson Machine Company (Great Britain).

Cushions are filled when the operator places the covers into a hopper which is closed over the covers in readiness for injection of the fillings. The range of machines will handle cushions varying in length from 38 inches to 78 inches, in width from 18 inches to 78 inches and thicknesses from three inches to eight inches.

Use of Teflon-coated sheet metal hoppers ensures that the

Effluent efficiently purified

EFFICIENT separation and recovery of solids from industrial liquid waste is offered by a self-cleaning rotary screen introduced by Effluent Processing Division of Rizzi U.K., Meanwood Road, Leeds LS7 2LB.

The rotary screen is the latest in a series of low-cost adaptable equipment designed, says the new Rizzi division, to help companies meet increasingly stringent water authority effluent regulations.

Considered ideal for processing difficult industrial effluent such as that having a high grease content, the machine has particular application in the food processing, textile, tanning, pulp and paper industry.

It has an efficient self-cleaning rotating screen enabling continuous operation without clogging or blinding and can be used in conjunction with or independently from existing batch process gravity separation tanks.

In operation, waste water enters a reservoir box at the top of the Rizzi machine and flows at a controlled rate over the surface of the rotating screen drum. Solid particles which cannot pass through the screen apertures are removed by a doctor blade and collected into a disposal hopper. Filtered liquid flows through the inside of the drum and out of the bottom of the screen, carrying with it any residual particles from the surface as it passes.

The screen is available in five alternative drum lengths from 24-inch to 72-inch according to volume required. For instance, in a fish processing environment of 5,500 gallons, a two-foot screen would be adequate. For high volume applications such as meat processing with effluent discharge of, say, 42,000 gallons, a six-foot screen would be required. There is a choice of three screen aperture sizes: 0.5mm, 1.0mm and 1.5mm.

Rizzi (U.K.), 388a Meanwood Road, Leeds LS7 2LB.

CONTRACTS AND TENDERS

Socialist Republic of the Union of Burma Ministry of Mines No. 2 Mining Corporation Tin-Tungsten Expansion Project

The above project will be implemented by the No. 2 Mining Corporation over the next 24 months.

The project comprises of the construction of a 0.35 cubic metre bucket ladder-dredge, the construction of a centralised concentrator to process the Corporation's current and envisaged tin-tungsten production and the establishment of a gravel pump mining unit and renovation of hydraulic supply pipelines.

Tenders will be called for:

No.	Description	Tender fees (US\$)	Date documents available and bid period
No. 1	Construction of a Diesel Electric Bucket Ladder Tin Dredge, including the supply of all equipment, material and services and the provision of a construction area for the complete construction of the dredge, commissioning and towing the dredge to the Heinze Site. Bidders will be subject to post-qualification to ensure that they have the necessary capability and experience in this type of works.	600/-	May 1978 (3 months)
No. 2	The prefabrication of industrial buildings and auxiliary steel structures.	100/-	May 1978 (45 days)
No. 3	The prefabrication of secondary steel for the completion of mineral dressing plants.	100/-	June 1978 (45 days)
No. 4	The supply of a wide variety of mineral dressing equipment including gravity magnetic and electrostatic equipment.	100/-	June 1978 (45 days)
No. 5	The supply of a variety of workshop equipment.	50/-	May 1978 (45 days)
No. 6	The supply of a variety of electrical switchgears.	100/-	October 1978 (45 days)
No. 7	The supply of steel and other hardware necessary to construct the proposed plants.	50/-	June 1978 (45 days)
No. 8	The supply of various electrical accessories necessary for the construction of the proposed plants.	50/-	June 1978 (45 days)
No. 10	The supply of tugs and water crafts.	50/-	June 1978 (45 days)
No. 11	Power generating equipment.	50/-	May 1978 (45 days)
No. 13	The supply of various items of pumping and mineral dressing equipment necessary to instigate gravel pump operations.	100/-	June 1978 (45 days)

Any organisation who is interested in receiving invitations to bid for the construction of the dredge or the supply of any of the components should write to the address given below enclosing the prescribed fee.

The Government of the Socialist Republic of the Union of Burma has received a credit from the International Development Association in various currencies equivalent to US\$ 16 (sixteen) million towards the cost of the project and intends to apply the proceeds of this credit to eligible payments for which this invitation to bid is issued.

Only suppliers in member countries of the International Bank for Reconstruction and Development and Switzerland are eligible to participate in this bidding.

Managing Director
No. 2 Mining Corporation
Ministry of Mines
Rangoon
Burma.

Address:

Project Controller
Tin/Tungsten Expansion Project
P.O. Box 295
No. 80 Rangoon-Insein Road
Kyaikkala
Rangoon
Burma.

Osborne & Chappel Sdn. Bhd.
14C Medan Kidd
P.O. Box 87
Ipoh
Perak
Malaysia.

FIJI ELECTRICITY AUTHORITY MONASAVU HYDRO-ELECTRIC SCHEME Power Transmission Project

132 kV Transmission Line
The Fiji Electricity Authority (FEA) invites tenders from experienced contractors for the design, supply and erection on Viti Levu, the principal island of Fiji, of the following:

Contract 02/01:
132 kV Steel Towers Transmission Line, Vuda-Wailoa-Suva
The proposed transmission line will interconnect the two major load centres of Nadi-Laucala (Western Area) in the north west and Suva in the south east of Viti Levu via a hydro-electric power station which is to be constructed in the centre of the island. The three steel tower transmission line will be approximately 145 kilometres in length and will traverse steep and heavily forested terrain on the eastern side (approximately two-thirds of route) and open hilly country on the western side (one-third). The design and construction will be such as to withstand sub-tropical and cyclonic conditions.

Early completion is of the utmost importance and completion by June 1980 or earlier is required.

Tender documents are available from Messrs & McLellan & Partners, 122 Arthur Street, North Sydney, 2060, on payment of a deposit of \$A200 by cheque made payable to the Fiji Electricity Authority. Deposits for documents are refundable on submission of a bona fide tender. Additional copies of the documents are available at a cost of \$200 per set which is not refundable. Tender documents may be inspected at the FEA's offices, Lautoka, at the office of Messrs & McLellan, Amherst, Killingsworth, Newcastle on Tyne, England, Carrer House, Warwick Road, London, S.W.1, or at Alexander Gibb & Partners, Commerce House, Bercow, A.C.T., or at the above address.

All firms wishing to tender are required to visit Fiji to acquaint themselves with the conditions. It is anticipated that a site visit and a pre-tender conference at which FEA personnel and the FEA's consultants will be present, will be held during week commencing Monday 22 May. Further details will be advised not less than two weeks before the site visit and conference is due.

Tenders will be officially opened at the office of the FEA in Lautoka at 1400 hours on Monday 10 July 1978.

A tender deposit of \$50,000 will be required to be submitted by each tenderer with his tender.

The FEA reserves the right to extend the stated date for the opening of tenders, to waive any informality in tendering and to reject any or all of the tenders received.

The FEA has applied for a loan from the Asian Development Bank towards the foreign currency cost of the transmission line and procurement under the contract may therefore be limited to member countries of the ADB. Further information regarding the above contract may be obtained from Messrs & McLellan & Partners, 122 Arthur Street, North Sydney, NSW, Australia.

TURKISH STATE RAILWAYS (TCDD) The Chairmanship of Central Purchasing and Sales Commission

Tenders are invited for 3,000 tons of tensile steel for concrete sleepers of which the technical features are written in the specifications.

- The above material is to be purchased by receiving bids from the countries who are members of the World Bank (IBRD).
- The specifications prepared for this purpose in Turkish and English can be purchased from TCDD's Central Cash Office in Ankara and Sirkeci Cash Office in Istanbul with a price of TL500.00.
- The bids shall be received by or handed in person to our commission not later than Monday, June 5, 1978, 15.00 hours, for a meeting at TCDD Supply Department on that date.
- The bids shall be submitted in seven (7) copies (together with their Turkish versions, if possible), and the words "TCDD İhtisat Genel Müdürlüğü Merkez Alım ve Satım Komisyonu Başkanlığı Gar-ANKARA/TURKEY" and "This is an offer for the material subject to IBRD's loan" and also subject of the Bids should be written on the envelopes containing the bids.
- TCDD shall be completely free to award Contract(s) for all or some of the items to any bidder at its sole discretion.

PEOPLE'S REPUBLIC OF THE CONGO Agence Transecongolaise des Communications Prequalification of Bidders

The Agence Transecongolaise des Communications is calling for the prequalification of bidders for works of telecommunications by cable or open wire line on the realignment of the railway Congo-Océan between Bilanga and Loubomo of 100 km.

Prequalification documents are available if requested from:

Agence Transecongolaise des Communications
Boite Postale 670
Pointe-Noire, People's Republic of Congo.

Bids close on July 1st 1978.

COMMUNICATIONS

TV beamed from satellites

SYNCHRONOUS SATELLITES have been used for some time to relay TV signals across the oceans of the world, permitting live coverage of lunar landings and of the Mexico Olympics. But they have functioned as one link in a complex chain ending up at the local TV broadcasting station.

For some time, it has been clear that within the fairly near future, it would become possible to use standard satellites as conventional TV broadcasting units—and indeed educational transmissions have been carried out in a number of countries, including India, using, however, space stations specially designed for the purpose.

Philips believes that wide-area coverage of ground receivers from space will become commonplace within 10 years and has been carrying out linked research at Laboratoire d'Electronique et de Physique Appliquée (LEP) at Limell-Brevannes in France.

This centre is participating in a project in this sector of communications which has the backing of the French Government. Wavelength chosen for the satellite transmitters is 12GHz, which corresponds to a frequency of 120GHz. This will permit the construction of a lightweight and compact transmitter to be carried by the satellites.

At the receiving end, the home owner will need to set up on his roof a small parabolic dish antenna pointing at the satellite, which for European purposes would be over the equator in the Atlantic area.

But the microwave signal, as received, could not easily be transferred to the TV set because of losses in the coaxial cables, Yannes, France.

A step in the right direction

MARCONI Communication Systems has been awarded a contract by the Post Office for the design and development of equipment for use in the high capacity digital trunk telecommunications network planned to link the main United Kingdom population centres.

This network is part of the Post Office's programme for introducing all electronic exchange and digital transmission systems in the 1980s.

Under the terms of the contract, Marconi will design, develop and supply a number of encoding/decoding equipments of the "Supergroup Codec" type for the digital trunk network. This will encode signals received from the established analogue trunk transmission network for injection into the new digital network and, conversely, decode digital signals for re-transmission into the analogue system.

Rigs have phone link

NORTH SEA oilmen in the Brent oilfield will soon be in touch with the shore by a new telephone communication system. The second phase connects Brent C and Cor each other when Marconi Communications Systems install radio equipment as a link between offshore stations, and additional shore stations, and connect back to the mainland.

Phase one for the Shell (U.K.) Brent oilfield will be to link Dungeness and Brent A, B and D to shore by line-of-sight radio equipment and also to connect Dungeness to BNOC's Thistle platform, Thistle having a troposcatter terminal relaying back to the Office troposcatter stations.

Non-stop power in the North Sea

A SOPHISTICATED standby system for static no-break power supply equipment for the North Sea Oil industry, is promised from Anton Piller (U.K.), of Conoco North Sea, operators of the field for the Conoco/BNOC/Gulf Group.

The specification is for the supply of no-break power to a 30kVA single phase load consisting of the platform's critical control and instrumentation loads, including computers. The design will provide high level reliability, using two separate 80kVA static inverter circuits in parallel with an alternative circuit only, while the second circuit operates in a standby mode. Both inverter circuits are supported by a standby battery which, in the event of mains failure, is capable of during either static inverter for several hours.

The system incorporates a backup power sensing and switching system ensuring that the output voltage is maintained within ± 1 per cent of 100V. Latest high frequency (HFS) techniques are included and high speed static switches will transfer and restore power load within 1 cycle. Transient response is such that a zero to full load step change causes less than 10 per cent change on output voltage for 1 cycle. The HFS technique should also ensure that the output waveform contains less than 5 per cent of disturbing harmonics at all times. Further information from the company at Love Lane, Glen-ester, Gloucs. GL7 1YG, 04385 61377/8.

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April 1978

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ALGEMENE BANK NEDERLAND N.V.

I can't get a job... I can't get experience without a job... but I can't get experience without a job...

Vicious, isn't it?

All over Britain there are thousands of unemployed young people trapped in this vicious circle.

In some areas it's as many as one in three. They are not work-shy. In many cases they have tried for dozens of jobs, only to find that, without experience or skills, they haven't a hope.

Yet we know for certain that if they could get some experience of working for a living or acquire a skill, their prospects would be much brighter.

Which is precisely why we have created the Youth Opportunities Programme.

Youth Opportunities Programme.

The Youth Opportunities Programme is a new plan to help employers help young people, even if they can't offer any permanent jobs.

It's based on the best elements of existing schemes that have succeeded in helping as many as 8 out of 10 participants into jobs. The idea is extremely simple: If you can take in young people for up to six months, introducing them to the benefits and disciplines of work, we will pay them £19.50 a week.

And there are no National Insurance contributions or tax returns to worry about.

They get invaluable experience, training and the chance to earn a reference that proves their worth. You get a chance to give them a future without having to take anyone on permanently - unless you want to.

The alternative.

The only alternative is a growing number of young people who feel discarded by 'the system' and a smaller pool of trained and enthusiastic people for industry to draw upon. And, if nothing's done, the inescapable truth is that by the end of this year the situation will be even worse.

Which is why the Programme is backed by the government, the CBI and the TUC.

How it works.

We have offices all over the country and our staff are eager to give employers every detail of the scheme.

At the same time, these offices keep in close touch with all the bodies concerned with unemployed young people in your area.

Which makes them uniquely

qualified to help you help young people.

If you're interested in participating in the Programme, our staff will help you plan an introduction to work for young people that will benefit them without disturbing the normal running of your business.

You are then free to choose the young men and women you feel have the most to offer - and whose future will be brighter as a result of training and experience under your guidance.

Then it's up to the Youth Opportunities Programme to make sure that your involvement is as trouble-free and rewarding as possible. Give a young person a chance, and we will do the rest.

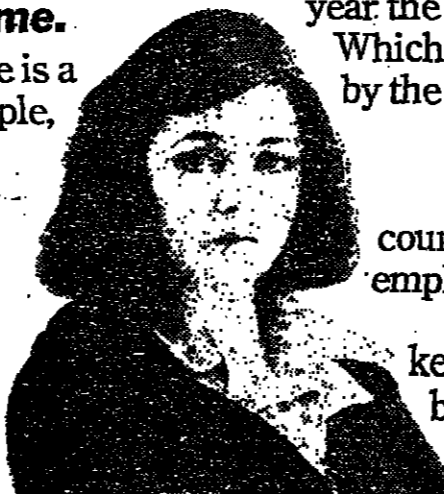
What to do.

Get the full story from Roger Panton, Manpower Services Commission, Department FT2, Selkirk House, 166 High Holborn, London WC1V 6PF Tel. 01-836 1213.

Our future workforce depends on it.

YOUTH OPPORTUNITIES PROGRAMME

Manpower Services Commission
Special Programmes



Building and Civil Engineering

Quarrying in Tanzania

REDLAND Technology, the central engineering, research and development organisation of the Redland Group, has been awarded a £1.5m. contract to establish a quarrying company to produce aggregates for the construction of the new Tanzanian capital city of Dodoma.

The project company, Integrated Concrete Industries, will be set-up by Redland as a wholly-owned subsidiary of the Capital Development Authority.

The contract will be carried out in close collaboration with Redland Aggregates and the plant which will be mainly of U.K. origin will be commissioned in the autumn. Companies supplying equipment include J. C.

Bamford, Sheepbridge Equipment, Frederick Parker and Heathfield Engineering Company.

Technicians from U.K. quarries will be supplied by Redland Aggregates to train local labour, and Redland management will continue to supervise production for two years.

During the past two years, Redland Technology has been advising the Capital Development Authority on the provision of a wide range of construction materials, and this contract represents the first phase of implementation. This first phase is being financed by a loan from the Arab Bank for Economic Development in Africa to the Tanzanian Government.

£10m. work to Cubitts

TWO LONDON contracts totalling £7m. and four other jobs in Devon and Lancashire worth another £3m. have been awarded to Cubitts.

In St. James' Square, London, Cubitts is to carry out a £5.3m. contract for Macdonald on behalf of U.K. Providence, to extend and refurbish Norfolk House.

Architects are T. P. Bennett and Son and completion is scheduled for the end of 1978. Not far away, in Mayfair, Cubitts for Ribble Motor Services Company at Bootle (£700,000).

an office block into a casino on behalf of Ladup, a subsidiary of Ladbrokes. Value of this contract is nearly £1.7m. and the work, under the direction of the Richmond Design Group, will be completed next year.

The other contracts are for a students' union block at Plymouth Polytechnic (£216,000), a supermarket for the St. Helens Industrial Co-operative Society at St. Helens, Lancs. (£1m.), an extension to the office block currently under construction in Skelmersdale Development Corporation (£1m.) and a bus depot and workshops for Ribble Motor Services Company at Bootle (£700,000).

Yemen order for cranes

THE PEOPLES Democratic Republic of the Yemen has ordered six self-erecting mobile tower cranes costing £440,000 from the Crane and Mining Division of Babcock and Wilcox.

The outward-bound cranes are electrically driven with a maximum height under the hook of 30 metres. A load of 2.55 tons can be handled at the maximum

working radius of 30 metres and each crane is supplied with a 70kW diesel-electric generator tower cranes costing £440,000 from the Crane and Mining Division of Babcock and Wilcox.

The cranes will be used in three factories currently under construction in the Yemen. The factories are to manufacture concrete components for industrialised building projects.

Laing's £30m. contracts

MAJOR department stores, such as John Lewis, British Home Stores, Littlewoods, Boots and C & A, will occupy a £25m.-plus project at Queensgate Shopping Centre, Peterborough.

John Laing has just started work on the shopping centre towards which Norwich Union is providing up to £25m.

A further venture, the full renovation of the existing Clydesdale Bank head offices in Glasgow, is due for completion in a contract period of 18 months at a cost of £1.3m.

At Market Harborough, Laing is to build warehouses and to construct Stage 2 of the office at the Old Railway Goods Yards under a £900,000 contract, and a new store for the Co-op in Coventry at about £350,000.

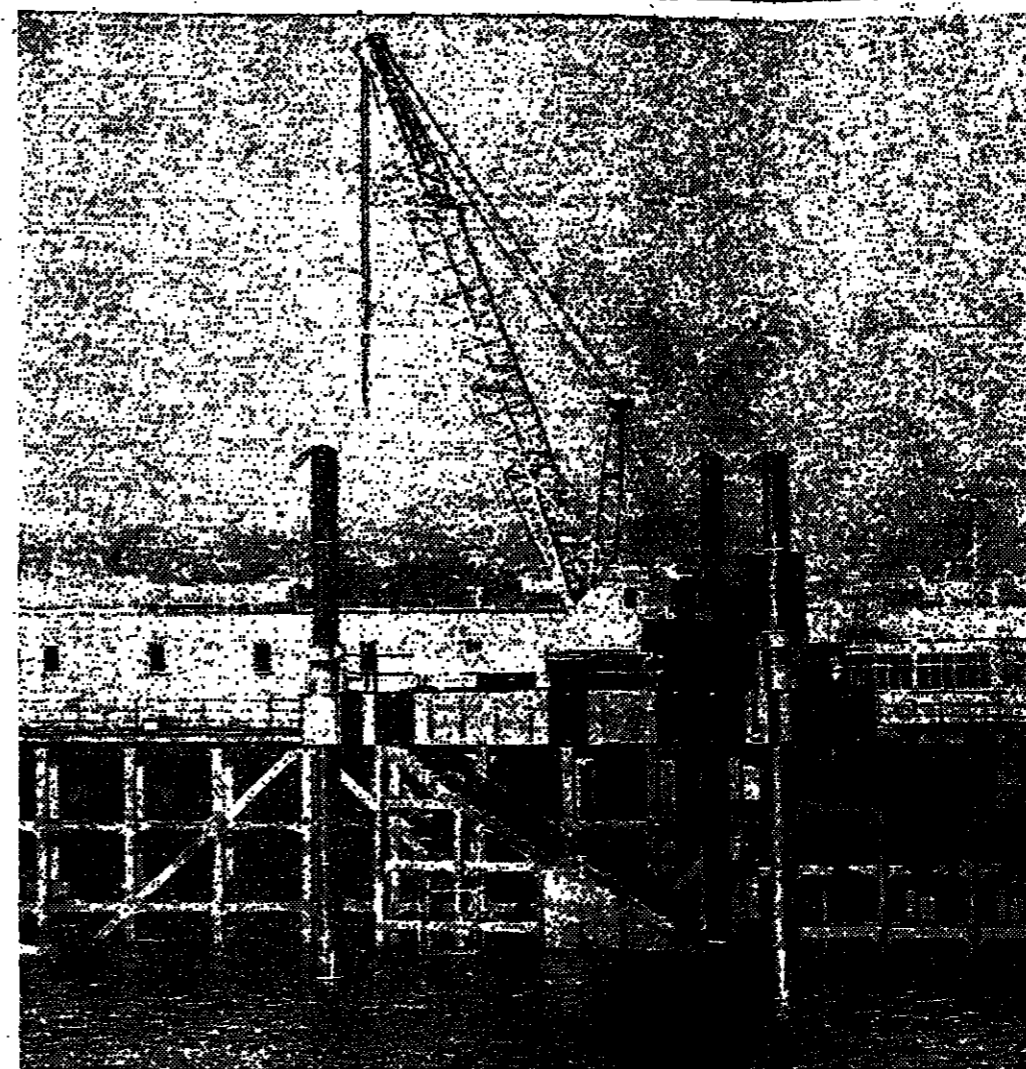
Alteration and improvement

£1m. award to Brims

BRIMS AND CO. has won a contract worth almost £1m. for roadworks in Tyne and Wear.

At Washington for the Development Corporation, it is to build warehouses and to construct Stage 2 of the office at the Old Railway Goods Yards under a £900,000 contract, and a new store for the Co-op in Coventry at about £350,000.

Alteration and improvement



Henry Boot gets work worth £1½m.

FOUR contracts totalling over £1½m. have been won by Henry Boot Construction.

At the British Steel Corporation's Stocksbridge works, a company is undertaking a 3 week contract worth over £800,000 for an extension to melting shop, while for the CH of Manchester it is to design and construct 22 advance factory units on four sites at a cost of £1m.

Another award is for the second phase of a housing project for Harlow Development Corporation. This is worth £275,000. The fourth contract for Tithern Products for which an office block is to be built adjacent to the company's factory on the Winesford Industrial Estate in Cheshire.

Plant hire survey

THE BRITISH plant hire industry is the subject of the latest survey from Jordan Dataquest. The survey covers 368 firms, including 35 extra companies, as shows that the largest ten private companies generated an average margin of 7.9 per cent, slight improvement from last year of 7.2 per cent.

It seems, however, that the profitability of the industry as a whole may have deteriorated. 17.9 per cent. of companies included were now sustaining losses against only 12.9 per cent last year.

Newcomers among the top ten private companies include M&M and Johnson, Vale Plant Hire and Steer Plant Hire—of which quoted companies Vintrop Holdings achieved profit margin of 27.4 per cent. on sales of over £5.5m.

The survey indicates that quoted firms are paying an average 10 per cent. better wage than the private companies. G. W. Sparrow amongst the leading firms with an average wage of around £5,000. The survey costs £38.00 from the publisher at Jordan House, completion time is estimated at 47. Brunswick Place, London N1 6EE (01-253 3030).

Start on £21m. motorway

WORK HAS just started on the new M55 motorway which will run from the M6 near Skelmersdale to Aintree. Two separate contracts with a total value of £21.7m. have been awarded to a consortium of Fairclough Civil Engineering, Northern Division, and Sir Alfred McAlpine. The work on this two year project includes the construction of 13

kilometres of new road, and the erection or alteration of 27 bridges.

Work to be undertaken by Fairclough includes a bridge carrying the Walton Junction-Preston railway line over the motorway, a bridge over the Leeds-Liverpool canal and diversion of the River Alt in both culvert and open channel at the Maghull interchange.

Power on the site

POWER requirements needed during the construction of the £32m. Galadari hotel complex in Dubai in the United Arab Emirates are to be met by a range of Wysepower electrical systems.

To win the contract from Cementation International (acting on behalf of the main contractor, Galadari Cementation Construction (Private) Wysepower design engineers—working from site layout drawings—put forward a comprehensive package scheme to cover every

envisaged electrical power and lighting requirement during the 36-month-long construction period.

Both 800 and 400 amp main distribution units are included in the scheme. These feed to step-down transformers and then on to Wysepower 110-volt distribution outlets, providing full power around the site.

Extensive tungsten halogen floodlighting supported by 100-metre lengths of festoon lighting, has been included in the scheme together with welding outlets and all on-site cabling.

Platform aids harbour work

THE FIRST three-legged Flexi-boat self-elevating platform to go into operation in the U.K. is being used by Taylor Woodrow Construction on a £650,000 contract in Douglas Harbour, Isle of Man, for the 10th Harbour Board.

One is for the reconstruction of the hard shoulder of the 111m. long bridge between junctions 10 and 13. Lengths of the north-bound hard shoulder will be excavated, some drains installed, catchpits and gulleys adjusted and pavement reconstructed.

At Lemons Hill, south of Ipswich, a 230 metres long bridge is to be constructed as a project placed by the Anglian Water Authority. The bridge will have 10 spans, the deck incorporating precast prestressed concrete beams with in situ concrete top slab and end diaphragms.

Part of the work will include a 900 metres road diversion and a 100 metres bund embankment. Consulting engineers for this are Binnie and Partners.

Supplied by A. Long and Co., and construct contract for a sole U.K. distributor for Flexi-boat new roadway associated with a lota Systems by the platform, roll-on, roll-off facility. The work which carries a 40-ton crane is involves constructing a 450-foot second to be purchased by long concrete jetty with a three-Taylor Woodrow and is currently lane 33-feet wide carriageway, employed on a six-month design and footpaths.

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Housing in West Africa

THE STATE of Liberia's new town, called Matadi, will consist of 1,100 housing units near the centre of the capital, Monrovia. Construction of complete municipal engineering, electrification and roads for the new housing area will be undertaken by Lemminkäinen Oy which has signed the 40m. Fink contract, after winning an international tender competition.

Part of the construction materials will be delivered from Finland for the project for which completion time is estimated at 22 months.

£2m. rail viaduct

A £2m. design-and-construct contract has been awarded to Raymond International by the Trans-Gabonese Railway Authority for a 650-metre railway viaduct across a flood plain on the equator 150km inland from Libreville in Gabon.

Groups of four piles will be driven at 10 metres intervals projecting up to 7 metres above ground. A concrete pile cap will be constructed for each group and Corten steel bridge sections, prefabricated by John Booth and Son of Bolton will span these caps. Raymond is transferring piling equipment from Nigeria and importing other material and equipment from Italy and the U.K.

The Trans-Gabonese Railway is being built for the transport of raw materials from the interior to the coast.

Trade body grows

AT ITS annual general meeting in London last week The Glass Fibre Reinforced Cement Association reported that it had now 80 members compared with 73 a year ago.

One of this comparatively new organisation's main aims is to encourage wider acceptance of its members products and its first Code of Practice (Guide to Specifications) has now been produced. Further specifications for products such as cladding are to be issued.

Papers presented at last year's International Congress on Glass Fibre Reinforced Cement, held at Brighton, have been bound into a 34-page volume which is obtainable price £15 from the Association at Farthings End, Bucks SL9 7LD.

IN BRIEF

● Improvements to a major Lewisham junction in South East London to ease congestion on the South Circular Road will start in December, says the Greater London Council. The estimated cost for widening the junction and setting back the kerb-line is £212,000.

● The Rochester-based division of FFA Finnegan (part of the FFA Construction Group) is to construct 22 old peoples' dwellings at Beacon Hill, Chatham, Kent, for Medway Borough Council, at a cost of just under £1m.

● Pergamon Press has appointed Bovis Construction to convert a stable block at the Headington Hill site, Headington, Oxford, into open-plan office accommodation at an approximate cost of £102,000.

● An off-shore piling contract at the GLC's Thames Barrier project, Woolwich, has been awarded to West's Piling of Colnbrook by Sindall Construction. The £300,000 work involves supplying and driving 603 West's Hardrive piles deep into hard chalk stratum below ground to form foundations of a high control tower for operating the flood gates and lock and ancillary buildings such as workshop, generator house and sub-station.



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The Executive's and Office World

How we can all have a hand in the office of the future

By Francis Duffy



How management attitudes are reflected for all to see: rigid, open, rectangular layouts (left) reflect the view that clerks are units of production; screened workplaces (right), which became common in the mid-1980s, as new types of professional demanded greater privacy and special storage.

The starting shortcomings of the executive office buildings in Britain have already been spotlighted on this page (October 31, 1977). Francis Duffy has also discussed (January 9, 1978) what he sees as more subtle deficiencies in such well-designed buildings as the Halifax Building Society headquarters (Building Design Partnership) and Central Beheer (Herman Hertzberger). Today he takes a more positive line.

TO MANAGERS, design tends to mean something optional and extra—jam rather than bread-and-butter. Neither designers nor managers have grasped that office design is much more than a collection of objects—it is inevitably a direct and unequivocal statement of management intentions, so clear and unambiguous that it is a medium of communications—both with staff and the outside world—of considerable significance.

It is the opposite of the story of the Emperor with no clothes. Someone persuaded the Emperor that he was arrayed in fine garments when he was naked. We are dressed in rags—by our squalid offices—but we think everyone looks straight through them at the real values which lie beneath. They, and therefore we ourselves, are all too apparent for all to view.

Take open plan. The great open plan office, with rows of desks arranged in strict rectangular order, was perfected in the early years of this century in the U.S. Open but regimented layouts were directly influenced by "work study" techniques first invented for industry by people like Taylor and Gilbreth—the American pioneers of "time and motion"—and applied to clerical labour very shortly afterwards.

Scrooge

The typical new office of the turn of the century was for a business which required an army of clerks to control innumerable small transactions. The primary objective was the efficient use of masses of low level clerical skills. The kind of open plan office which resulted proclaimed that message loudly and clearly, in the same way that Scrooge's office of 80 years earlier was the product of a different technology and—believe it or not—of the far higher status of the clerk. There was then a far closer relationship between the entrepreneur owner and the rare and quality indispensable Bob Cratchits of status symbols was an attempt to make management more approachable; the fire-

An entirely different kind of open plan was invented in Germany in the late 1920s: office landscaping. This could be considered merely as a different kind of design, characterised by potted plants and informal desk arrangements. In fact it is much more. It is a direct representation in physical terms of the generation of management ideas which superseded Taylorism.

These leafy, random layouts are derived from "human relations," the school of management thinking invented in the 1930s in the wake of famous experiments at Western Electric's Hawthorne plant in Chicago, which showed that productivity is not directly related to the quality of the physical environment, but takes account of human factors, thus softening the conflict between men and master implied by Taylor's view of men as a machine-like unit of production.

Physically the new office layouts were very different from what went before. Office landscaping is instantly recognisable but it was not an arbitrary design gimmick—it was a clear reflection of management ideas which were becoming dominant at the time. Greater management concern for staff was manifested in a higher quality of environment; the application of status symbols was an attempt to make management more approachable; the fire-

Highlight

More recent developments reflect the same tendency for design to highlight management shifts of direction. Take, for example, two very simple and apparently trivial developments—the use of screen-based furniture and the renaissance of "task lighting."

Screen-based furniture is office furniture in which desks tend to be attached to and separated by screens. The separating function of walls is carried out not by the building but by the furniture. Separation between workplaces is achieved by linked screens, which also serve to hang reference materials, storage and pinboards.

This kind of furniture was invented in the U.S. in the mid-1960s.

Why? Because, for instance, the problem of accommodating certain new professionals—programmers and specialists—who

need contact as well as a lot of privacy, who are users of manuals and references, and who are below managerial status, was a sufficiently acute crisis in enough American organisations to interest a forward-looking furniture manufacturer.

A new class of office worker emerged: a new kind of office layout followed straight away. Because this kind of office worker was becoming so important, screen-based layouts threatened at one time to become mandatory for any forward-thinking client.

Task lighting, less spectacularly but more fundamentally, is simply the provision of a local light at the workplace, the sort of lighting top management and draughtsmen have enjoyed for years. In Scandinavia most workplaces in most offices seem to be equipped with task lighting—every Swede is borne with an anglepoise, if not in his mouth, at least at his desk. But the advance into other jobs and other countries of this single piece of equipment is a physical symptom of a very profound change in relations between management and staff. An office worker's control over his workplace lighting is an indication of control over the way the work itself is done. Just as the extent of Christendom is marked by church bells, and of Mohammed by the minaret, so the local light at the desk is a

sure and certain sign of the advance of participative management.

An alternative explanation might be that innovations such as screens and desk lights are trivial, and merely fads of designers imposed on innocent managers and uncaring staff. This theory is all the easier to believe, because managers and office workers seldom press for the improvement of the environment in which they work. Office design would obviously be of a higher standard if people fought for what they wanted.

Humble

When office workers do argue cogently and effectively for their own interest, it is because even the humblest has his own well-defined piece of territory, his own workplace, to defend. He has his own line management to depend upon for support against the machinations of designers and other threats to his security and comfort.

Even if staff are not consulted and all the big decisions are made, as they often are, by top management, the designer of the office interior still plays a subservient rather than a dominant role because he has to satisfy a client who very often has a clear, if not particularly articulate, notion of what suits him and his ways of running his business. Design proposals approved by staff before they

which seem inappropriate to management or staff or both just do not stand up. Nothing is as fragile as an office interior design concept which does not fit.

An office interior design results from a considerable number of pressures bearing upon the designer. New machines, new techniques and new styles of management have an inevitable impact. In many ways the designer is merely the instrument through which change is effected.

One advantage of this line of argument is that we can use it to anticipate what will happen next in office design. What will be the dominant management style of the eighties? Let's say we have moved beyond Taylorism through the manifold influences of human relations thinking to an organisation world which is far more concerned with participation and industrial democracy. Perhaps it will be these ideas which will dominate industrial policy for the next ten years. If they are, what will be the design consequences of a participative management style in the office? They could include:

Even higher physical and environmental standards. Nothing in the worker-director concept is likely to reduce the growing expectations of office workers for standards which are at least equivalent, if not superior to those expected at home.

Increased freedom in controlling the individual workplace. Sharing in decision making is certain to be related to greater individual control of the workplace—arranging lighting, plants, desk positions, choosing furniture, decorations, posters, goldfish, trivial items which all reflect greater real autonomy.

More emphasis on defining group boundaries strongly, but flexibly. This is particularly important, as small project groups and interlinked but small teams of specialists are likely to become typical organisational units, in place of the big clerical gangs of former office eras.

Sharper demands for the good things in the office environment—rooms with a view, enclosure, space, equipment—to be shared out more equitably so that not only the elite but the mass of office workers can enjoy what once were managerial preserves.

These seem to be good, highly desirable consequences. Already in Sweden, where industrial democracy is as advanced as anywhere in Europe, new building projects have to be approved by staff before they

are authorised to proceed. What evidence we have suggests that one immediate consequence is a swing away from the corporate values expressed in the 'sixties style of office landscaping, towards building forms which are more cellular and in one sense more conservative, and more fitting to the demands of the majority. Certainly they are different.

Probably in Sweden and perhaps in Holland, the prototypes of future office buildings are already here. While it would be foolish to discount the possible divergent impact of other factors such as energy conservation, and the need to provide buildings with more services to support far more terminals and telecommunications devices the dominant management style of future organisation alone will have a major impact on office architecture. If this style is participative, buildings will be profoundly influenced.

This prediction could be made with far more certainty if there were more sign of strong consumer interest among users of office buildings, or if white collar unions began to take an intelligent interest in the working environment of their members. But even without overt pressure, the reality of changing management styles will slowly and inexorably work its way through into the office interior and the office building. Just as Taylorism and post-Hawthorne human relations thinking profoundly influenced the design of offices.

This could be a great opportunity. Not one major innovation in office design has been made in this country in this century.

Vigorous

British office buildings are easy to attack but they are all too obviously the products of a low spirited economy and society. Negative criticism after the event does not help the poor architect or building owner. But a more vigorous economy and changing attitudes to the running of organisations should demand a far more intelligent response from architects and designers. Even if we cannot spell out precisely what we expect, the general direction should be better.

If it is not, and there are no new ideas in our offices, then don't just shoot the architect. Once again we will have got the buildings we deserve.

Francis Duffy, ARIBA, is a partner of Duffy Lange Gilson, Worthington's designers and space planners.

Discovered: small firms training gap

THERE is, it appears, a substantial body of opinion in business that the last thing a manager needs is training. One in four companies in London and the South East offers its managers no training, and among the smaller companies, employing less than 100, management training is provided in less than half of them.

These findings come in a survey sponsored by the Manpower Services Commission, which found that those managers who did receive training thought it had made a "positive contribution to their work."

The managers' own belief in training is amply demonstrated by the survey's finding that it is often they themselves who suggest attending training programmes: 28 per cent of those who had recently attended a programme fell into this category. Only 18 per cent went at the behest of training managers. Inevitably large companies were found to be more committed to training their managers, with a quarter of them attending courses last year, compared with only a sixth in small companies. The survey includes supervisors in its definition of managers.

The MSC says that for the great majority of the 389 companies surveyed, "learning by trial and error was considered the most important part of a manager's education."

An interesting profile of the average manager is suggested by the survey. He is likely to have been recruited from outside rather than promoted from within. Nearly twice as many future managers come straight from school than from colleges and universities. One manager in five has no formal educational qualification, yet one in four has a professional qualification, says the survey.

Private training organisations are rated well for providing training which is "relevant" to requirements. But they are criticised for being too expensive, and the professional bodies are felt to be too narrow.

Of the managers attending training, two thirds studied management, the remainder technical or specialist subjects.

Copies of the survey are available from Professor Keith Alan Smith, Director, London Regional Management Centre, 311 Regent Street, London W1R 8AL.

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Unreasonable rejection

LONDON'S unique position among world insurance centres is based on the fact that it is a truly international market. Something like three-quarters of its business is denominated in currencies other than sterling—and its heart lies in Lloyd's. So when the Committee of Lloyd's takes a decision which effectively prevents prominent international insurance brokers from having direct access to the Lloyd's market, the inconsistencies are glaring.

All business placed at Lloyd's has to go through Lloyd's brokers, and the Committee ruled last week that no more than a 20 per cent. holding in such firms could be acquired by outside insurance interests. These were defined as an insurance company, an underwriting agency or a non-Lloyd's broker. The decision was put forward as the conclusion of a working party which had been looking into the question of brokers' independence for many months, and the idea that any issues of nationality were concerned was loftily dismissed. Conveniently, however, the working party's report coincided with takeover approaches by two of the biggest insurance broking firms in the U.S. for Lloyd's broking firms. These now appear to have been ruled out of court.

The reason

The stated reason for the ruling was the need to ensure that all Lloyd's brokers remain genuinely independent and free to obtain the best terms for their clients whether at Lloyd's or elsewhere. But the fact is that most of the leading Lloyd's broking firms themselves control Lloyd's underwriting agencies without any apparent conflict of interest. Some also own non-Lloyd's underwriting businesses. Others are themselves owned by large outside financial institutions, such as a bank. A few are controlled by overseas interests.

At a time when their business is not as buoyant as it has been in recent years, some Lloyd's broking firms undoubtedly felt threatened by the thought that if the takeovers were allowed to go ahead, the U.S. companies would channel their business through their London subsidiaries at the expense of the remaining independent firms. This might have happened to some extent. But what a big broker needs most is skilled

placing power spread right across the market place—which is why one of the would-be U.S. bidders promised before last week's decision that existing relationships with its main London correspondents would be largely unaffected if its bid was allowed to go ahead.

Apart from the sectional interests of some brokers, the question of who controls Lloyd's underwriting agencies is a genuine concern—and one which would certainly arise if an outsider were allowed to buy a Lloyd's broking firm which in turn controlled underwriting syndicates. What Lloyd's has to preserve at all costs is its reputation for the highest financial probity, and to do that it sometimes has to require its members to take a course of action which could not be justified by short-term financial considerations.

So the Committee obviously has to retain discretion about who is allowed to come into the market place. But to debar as a matter of principle broking companies of the size and financial strength of the two U.S. groups which were concerned in last week's decision seems nothing short of ridiculous. Ironically, Lloyd's has been actively canvassing foreign capital for its underwriting capacity for nearly a decade now, and there is nothing new about the need to ensure that the management control of underwriting remains within Lloyd's rather than where the money is.

The Costs

Last week's ruling does not have any dramatic implications for the short term. Overseas brokers do not place business in London as a matter of course; they come because the market has the capacity and the skill to meet their requirements. They have not been deterred by the need to go through Lloyd's brokers in the past and although there has been a certain amount of huffing and puffing in the last few days—they are not going to change their policy just out of pique.

But there will be longer-term costs, even though they may be impossible to measure. A market loses in efficiency if it limits the access of healthy participants. What has been lost is the opportunity of building a new bridge between the market place and its biggest customers.

Turkey should try harder

CYPRUS HAS been an international problem for so long that it is easy to overlook its continuing potential for crisis. To-day the cynical might argue that its threat to the world community ended in 1974 when the Turkish armies imposed their "final solution" and almost half the population of the island was uprooted and resettled. But nearly four years later Cyprus remains the West's tinder box.

It would be pleasant to say that Turkey's (grossly-delayed) proposals for a settlement after this situation. But, when they were finally tabled—to many it seemed as if the mountain had merely brought forth a mouse.

Disheartening
The constitutional proposals were only an indicative outline. Moreover what they indicated was disheartening for those who believe in the UN's virtually unanimous demand that Cyprus should remain independent, sovereign and unitary.

Instead of this, the two communities would have their own separate security forces, their own separate legislatures and central banks, and be able to sign separate treaties with any outside state. The powers of the federal state would thus be limited.

If it is issues of law which are at question here, the question of equity is raised by the Turkish proposals on territory which are far short of the amount the Greek Cypriots demand to restore the balance of land to population.

Questionable in law, tough in equity and harsh in economics—the 30 per cent. of the population in the north will control nearly one-half of the country's economic resources—the Turkish Cypriot proposals are hardly the step forward which had been hoped for. More had been expected now that Mr. Bulent Ecevit was back as Prime Minister of Turkey.

Mr. Ecevit's own argument is that as trust is established so more powers will be given to the federal government and

the crucial rights of freedom of movement and settlement will be activated. This is a powerful argument but Mr. Ecevit has done his cause a disservice by not doing more to allay Greek Cypriot suspicions. It was he who sent the troops into Cyprus in 1974 and even to-day he continues to flout UN resolutions by leaving 25,000 of the original 40,000 invasion force there. The presence of one Turkish soldier for every Turkish Cypriot family inevitably influences local politics.

The last Turkish Cypriot "Prime Minister," Mr. Necati Konuk, says that "Right-wing extremists" have taken over the ruling party. His successor, Mr. Osman Orel, is on record in 1975 for saying, "we want to be the 68th province of Turkey, but Ankara will not let us." Hardly an attitude which squares with today's "federation through evolution."

In all this, the West has done little better in restoring the rule of law than it did in 1974 at the time of the junta's coup. Finding sympathy abroad but little support, President Kiprianou is in an unenviable position.

Responsibility
With the 2,000 missing Greek Cypriots unaccounted for and the church militant, it is almost impossible for a Greek Cypriot to accept wiping the slate. But the international mood is against them and the acute problems the Turkish Cypriots faced before 1974 are remembered abroad.

To-day the West is keen to see fresh talks between the two communities, and the Greek Cypriots have to recognise this. But if Dr. Waldheim's reconvening the talks is to have any value, they cannot afford immediately to fail. The responsibility for rebuilding trust has to be with the stronger side. And it is up to them to show that they can do better and offer more than they have so far.

Amoco Cadiz wreck leads to changed shipping routes

By IAN HARGREAVES, Shipping Correspondent

WHEN shipping companies in the North Atlantic got together in 1988 and proposed the world's first recommended safe shipping routes, the danger they sought to avoid was that of icebergs.

The Titanic and a number of other notorious disasters demonstrated the failings of these early routes just as last month, the grounding of the supertanker Amoco Cadiz off Brittany illustrated a weakness in a more modern route—the fact that its closeness to the shore left little hope of preventing a major disaster if something went wrong with a laden tanker in heavy weather.

There were, of course, many possible explanations for the Amoco Cadiz incident and the public inquiry in London later this summer organised by Liberia, the vessel's flag of registry, should settle the arguments about which are the most pertinent.

Meanwhile the French authorities, stung by the calamity of 150 kilometres of heavily polluted coastline and a characteristically volatile Gallic public reaction, have concentrated on attacking the question of shipping lanes. Their achievement in pushing IMCO, the UN maritime agency, into full agreement on a radical new scheme just over a month after the accident is in itself something of a landmark in maritime history.

The new scheme, which should be in operation by the end of the year, channels laden, northbound tankers and other vessels carrying dangerous cargoes more than 30 miles away from the island of Ushant, which is close to where the Amoco Cadiz was wrecked.

It is controversial not so much because it forces tankers to make something like a three-hour detour but because it sacrifices two important navigational principles in the interests of protecting the French coastline from pollution. These navigational

considerations are the inability of tanker officers 30 miles from land to fix their ship's position by reference to a landmark or light. Instead they will have to use electronic devices. The second consideration is that the new scheme means tankers later crossing the ordinary shipping lane in order to proceed up the Channel towards Rotterdam.

Although the French delegation to IMCO this week has been obliged to shelve a whole basketful of even tougher proposals—from abolishing flags of convenience to measures obliging oil companies to outlaw substandard ships—its achievements have not been inconsiderable. The French have taken a stage further the underlying trend in maritime law to move away gradually from the traditional twin concepts of free sea and of control by the country of a ship's registration.

Such a trend has been made inevitable by the immense third party risks involved in accidents between tankers carrying crude oil or other dangerous cargoes. The French are confidently predicting that the compensation costs payable by the owners of the Amoco Cadiz and her cargo will greatly exceed the theoretical maximum of \$30m. The committee which drafted the two new schemes illustrated in the bottom map—those of Ushant and the Casquets rocks—recommended that routing schemes in other seas be re-examined in the light of the principles applied in the case of the Channel. This could mean a review of many of the hundred or so schemes currently approved by IMCO.

It is not surprising that ships' routing systems should be under criticism, whether it be from Governments which have to deal with the pollution caused by wrecks or shipping companies whose masters occasionally find systems unhelpful and even dangerous. IMCO adopted its first traffic separation scheme, that in the Dover

Straits, only in 1962 and it has only been since last July that any of these schemes have become mandatory.

The evidence so far is that the coming into force last summer of the International Regulations for Preventing Collisions at Sea (1972) has already brought an improvement in navigational safety. There was a 38.5 per cent reduction in the number of contraventions in the Dover Straits between the first and last quarters of 1977. The number of collisions has fallen 75 per cent, since 1971.

Movements up and down the Channel involve about 300 ships a day, with the additional hazard of another 200 cross-Channel vessels in the summer peak.

One reason why so much is known about the Dover Straits scheme, apart from its age, is the unusually large amount of shore radar cover and surveillance from both sides of the Channel. This enables coastguards immediately to warn a vessel breaking the rules and instruct it to resume its correct course.

Prosecution of offenders for straightforward contraventions is also made possible by radar surveillance. Before this, the authorities just had to rely on reporting offenders involved in accidents, which is the case in almost all other routing schemes. Even so, there is a strong feeling in many quarters that the penalties applicable are derisory in the light of the value of the ships involved.

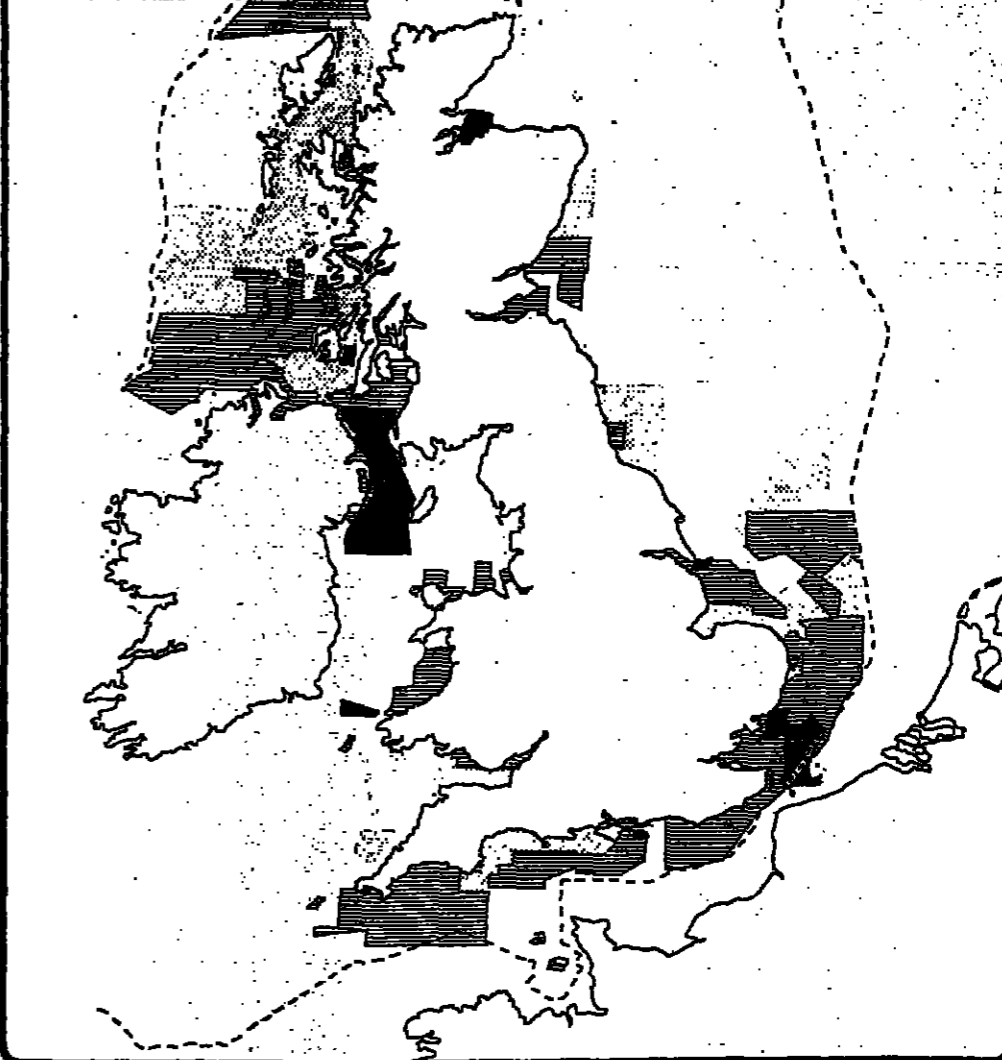
Prosecution depends upon the willingness of a vessel's country of registry to act on the strength of a coastguard's report and the speed and severity of the action taken varies considerably. Britain, for example, has powers to impose a maximum fine of £100, although there were plans to increase this to £1,000 in the Merchant Shipping Bill, which has failed to surface because of lack of Parliamentary time. Of the 69 contraventions in the Dover Straits reported by the authorities between July 1977 and this February, only nine led to fines. The largest was a Belgian penalty of £200.

But at least in the Dover Straits scheme, the lanes have gained acceptance and a degree of enforcement is possible. In other schemes, such as the one illustrated off Lizard Point, Cornwall, and even more so with schemes in the Irish Sea, it is accepted that contravention is widespread.

The problem with the Lizard scheme appears to be simply one of ships' masters preferring more convenient and shorter routes when travelling northwards. The northbound lane is about ten miles from land and masters prefer to sail closer to the coast. In the Irish Sea, there are a number of schemes, but resistance by fishermen, who claim the system makes

THE STATE OF ADMIRALTY CHARTS AROUND BRITAIN

AREAS FULLY SURVEYED TO MODERN STANDARDS INCLUDING SIDESCAN SONAR SEARCH WITH ALL WRECKS FULLY INVESTIGATED.
AREAS FULLY SURVEYED FOR DEPTH, BUT SONAR SWEEPING NOT TO MODERN STANDARDS & WITH INCOMPLETE INVESTIGATION OF WRECKS.
AREAS SURVEYED BY ECHO-SOUNDER, BUT NOT NECESSARILY TO SCALE SUITABLE FOR MODERN CONDITIONS &/OR NOT FULLY EXAMINED BY SUITABLE SONAR EQUIPMENT.
AREAS SURVEYED BY LEAD-LINE ONLY, OR UNSURVEYED.
APPROXIMATE LIMITS OF U.K. SURVEY AREA.



their necessary manoeuvres impossible, has led to the traffic separation lanes being widely ignored.

One of the most popular suggestions as a result of Amoco Cadiz has been the idea of providing a land-based system for tankers in congested waters along the lines of the support provided by landing towers at airports. This expensive idea probably results more from frustration at the inevitability of human fallibility on the bridge at sea than from understanding the instant required of a ship's officer, especially in bad weather.

It is true, however, that much remains to be done in ensuring that the qualifications and abilities of officers and ratings on board merchant ships are up to standard.

There are dangers, too, in the very speed of technological advance in navigational equipment. A modern tanker, for example, can be equipped with echo sounders to measure water depth, an electronic system which monitors radio signals in coastal areas to fix a position within yards, a satellite-following device to fix positions out of sight of land, and computer-aided systems for collision avoidance designed to show about ten miles from land and approaching hazards on a display screen.

The anxiety is that crews are either not fully trained to operate such sophisticated equipment or that they place too

much reliance upon it and are unable to cope if the equipment does not function correctly. As ships become larger, faster and more numerous—the perils of a moment of indecision or panic on the bridge can be enormous.

Another difficulty which has earned less Government attention than it deserves is that of hydrography. Britain is one of six countries which provides a worldwide system of marine charts and it relies for the production of these documents on information from the Hydrographer of the Navy.

At present, almost three-quarters of the waters around the U.K. Continental Shelf are either unsurveyed or have not been surveyed since the lead-line soundings of the last century. Given that the largest ships' draughts are now three times greater than they were in 1900 and that, in the intervening period, two World Wars have cluttered the sea-bed with wrecks, hydrographers believe we are exposing ships to unnecessary risks.

The Government is not unaware of the problem. It commissioned a report in 1974 which told it bluntly that £30m. must be found outside existing defence funds to allow the Navy to do a proper hydrographic survey. Meanwhile a number of possible deep-water shipping routes, some in the North Sea, oil exploration area, cannot be sailed with confidence. It was an item in any such trans-

formation in the Ushant area which prevented other vessels getting alongside the wreck Amoco Cadiz to pump oil from her holds.

Commander John Paton, chairman of the IMCO traffic separation group and himself a hydrographer, says the idea of detailed information should be available about every small cluster of rocks is wildly over-ambitious. But he agrees there are "big dangers" in the present paucity of information. Almost half the British Admiralty's charts have not been updated for 15 years.

Perhaps concern arising from Amoco Cadiz will be enough to end the inertia. It is certainly something for the Commons Trade and Industry sub-committee to consider during its investigation, announced last Friday, of tanker safety.

It took the sinking of the Torrey Canyon 11 years ago to push the oil industry in devising realistic rules for compensation for pollution damages. French anger at Amoco Cadiz may have given a momentum which will lead to a transfer of control over shipping navigation from the Government of countries where a ship is registered to Governments whose economies and environments are threatened either by possible deep-water shipping routes, some in the North Sea, or by oil exploration area, cannot be sailed with confidence. It was an item in any such trans-

MEN AND MATTERS

Alternative press for ICI

Imperial Chemical Industries' 95,000 workers have long been served by a clutch of company newspapers which feed them the latest company results, bring them tidings of new products and breakthrough export orders, and exhort them and their football team to greater efforts.

But now a brash rival has sprung up which threatens the previous comfortable monopoly of internal company information. Chemco News, it must be said, approaches the country's largest manufacturing group from a different angle. It refers to ICI's "long-established paternalistic and manipulative personnel policy." It tells them that national trades union officials do not take ICI members' problems sufficiently seriously. And, if they turn over to page two, they will be hit by the warning that ICI's "iron fist" is showing through its "velvet glove."

Chemco News is the brain child of ICI Combine Shop Stewards, which itself began life less than five years ago. The combine is trying to break ICI's practice of conducting industrial relations and pay negotiations on a national basis. The shop stewards scattered around the country felt left out in the cold. Now they are hoping the newspaper will help bring power to the shop floor.

John Grime, secretary of the Combine and a steward of the Transport and General Workers' Union in ICI's fibres division in Doncaster, says that support for the paper is coming from all over the U.K. He told me that the job of editor is being carried out by an "it's all very democratic." Funds have been coming from local branches, he says, not from official union sources.

The Combine had only printed 2,000 of the first edition. At 10p a copy it was a sell-out. The

Combine, embarrassed by success, found that it had not even got enough copies to meet a fraternal black order from the London office of ASTMS—Clive Jenkins' white-collar union which is battling to win more members from ICI's ranks.

Grime told me they hoped to bring out a second issue within two months but said they would keep the print limited since there was some advantage in its "rarity value." He said they had not sent anybody to the company's AGM last week since that was just a talking shop and in any case most ICI workers liked to dispose of the shares they received as quickly as possible. But he said that matters discussed at the AGM such as the company's interests in production of components of tear gas in South Africa would "certainly be of interest" to Chemco News.

Write on

Is the postman your closest buddy? Or more to the point your child's? That is the theme of a letter-writing competition set up by the Post Office, with prizes of up to £100.

The children are limited by the title of the essay—"The postman, my best friend." One colleague's 13-year old child feels the title a problem as, he told me, "Our postman delivers nothing but bills on time and makes our breakfast table a misery." In the meantime, we have our own competition (50 words, prize £5).—The GPO, whence its profits?

Fancy free

Those of us who, like Marcel Proust, can be nourished by the mere memory of favourite foods will be saddened to hear that in many American restaurants menu listings of such delicacies as Everglades frog legs, Colorado trout and Maine



"Unfortunately we got ours for exporting overcast executives."

worried about the situation here.

He told me that he remembered only one restaurant—a famous London one—fined for describing its food as fresh when it was not.

He thought that the main problem was when the origin of food was given. "There is much talk of Aylesbury ducklings, but extremely few ducks in Aylesbury," though he added that a lot of French Burgundy had never been near Burgundy. His main worry was that British restaurants should not be allowed merely to heat up packets of food "as a hell of a lot do."

Table talk

It is not often that an author celebrates publication of his book with a dinner with one of its targets. But the New Zealand Prime Minister, Robert Muldoon, will be Jim Callaghan's guest on Thursday—the day his memoirs come out here in which he argues that Roy Jenkins should have been elected leader of the Labour Party.

Muldoon, who leads the New Zealand National Party, the equivalent of the Conservatives, writes that Jenkins would have been a fine Prime Minister. "To be fair, I did not see the Jim Callaghan of the late 1960s as a Prime Minister, but the Jim Callaghan of 1978 had clearly grown in stature."

However, he reserves his main praise for Margaret Thatcher. He is clearly captivated by her. "Nicknames such as the Iron Maiden do not adequately describe Margaret Thatcher. She has a brilliant mind... It is perhaps her clarity of thought and expression that I admire most, but at close quarters she loses none of her femininity."

Observer

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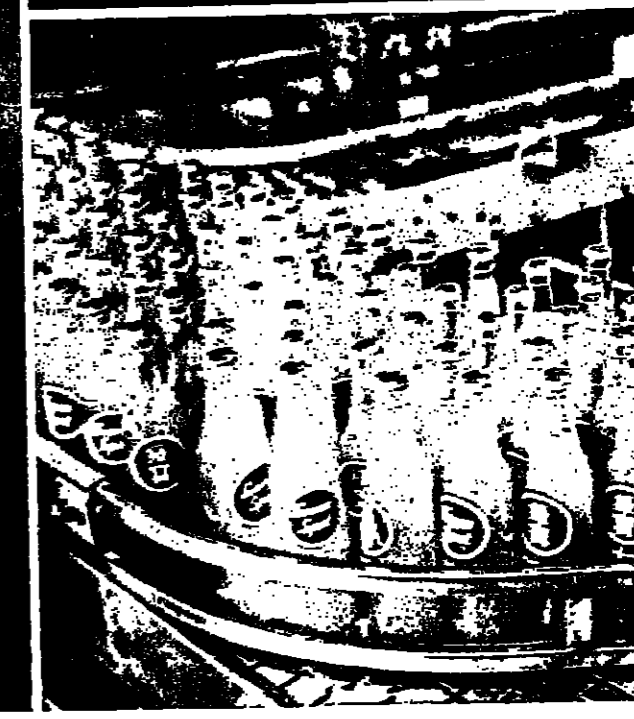
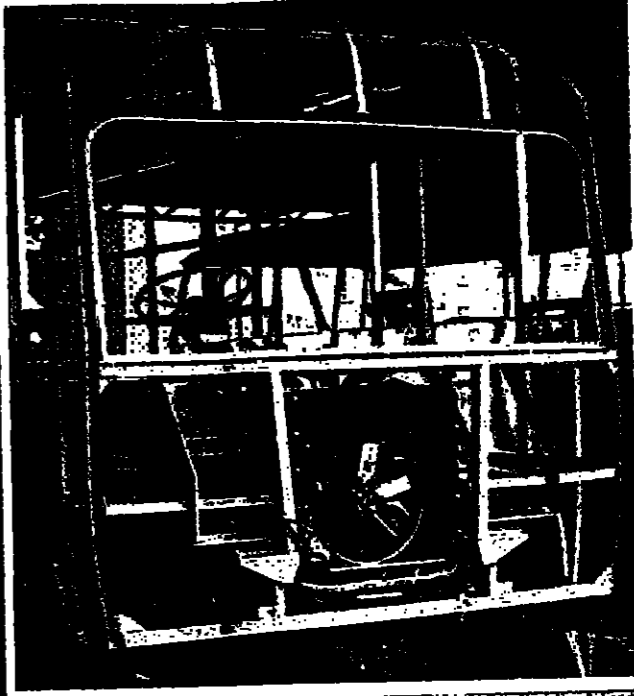
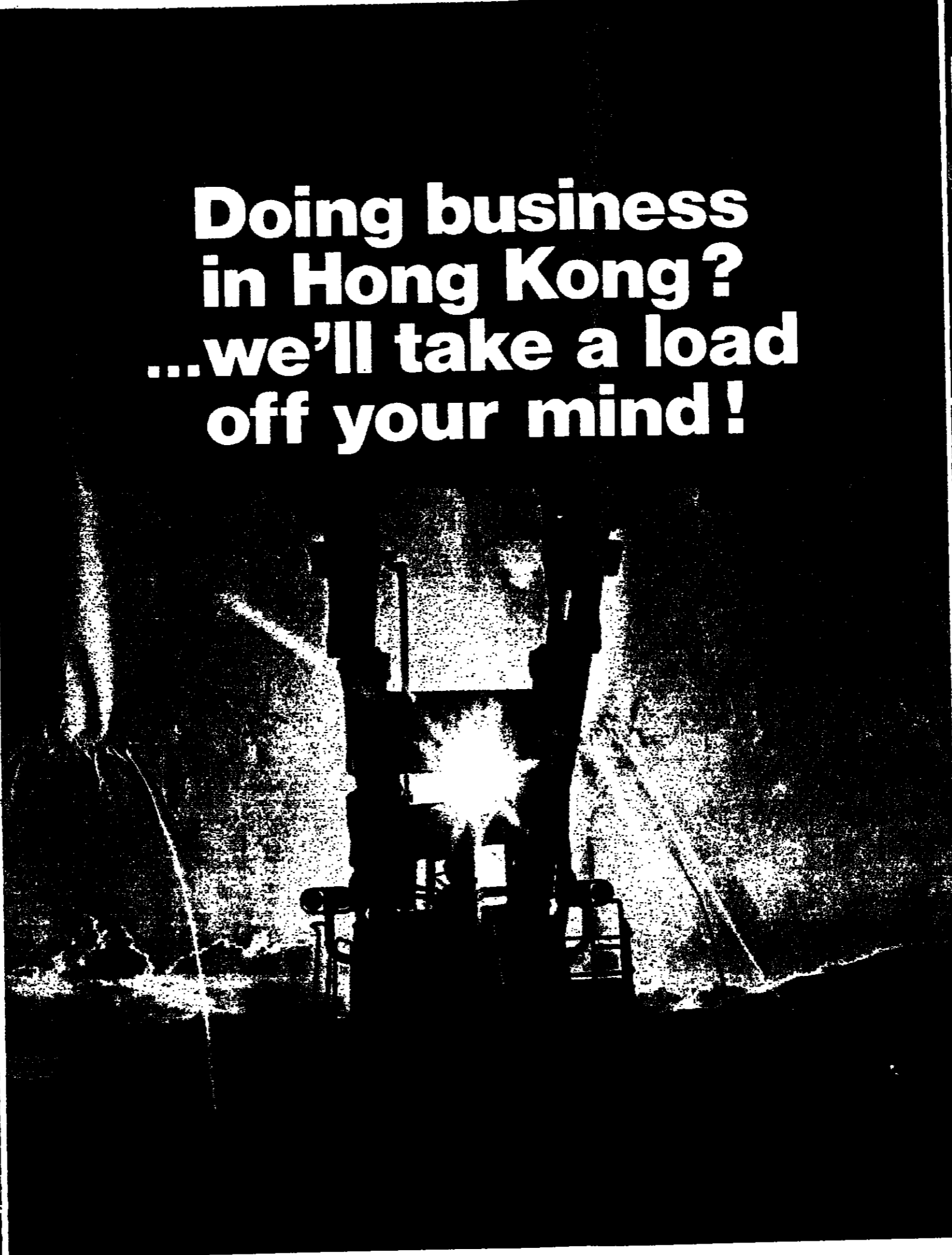
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tionally supplies Hong Kong with a range of respected building hardware, components and scaffolding.

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Harpers is another China Engineers company and is a driving force in the automotive and transport business in

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HONG KONG II

Hong Kong's future is difficult to predict, although the change of leadership in China has improved the political outlook. Doubts remain about Britain's long-term commitment, and the appointment of a new Governor is awaited with interest. The economy continues to flourish while still adjusting itself to fluctuations in world trade.

Special niche in world trade

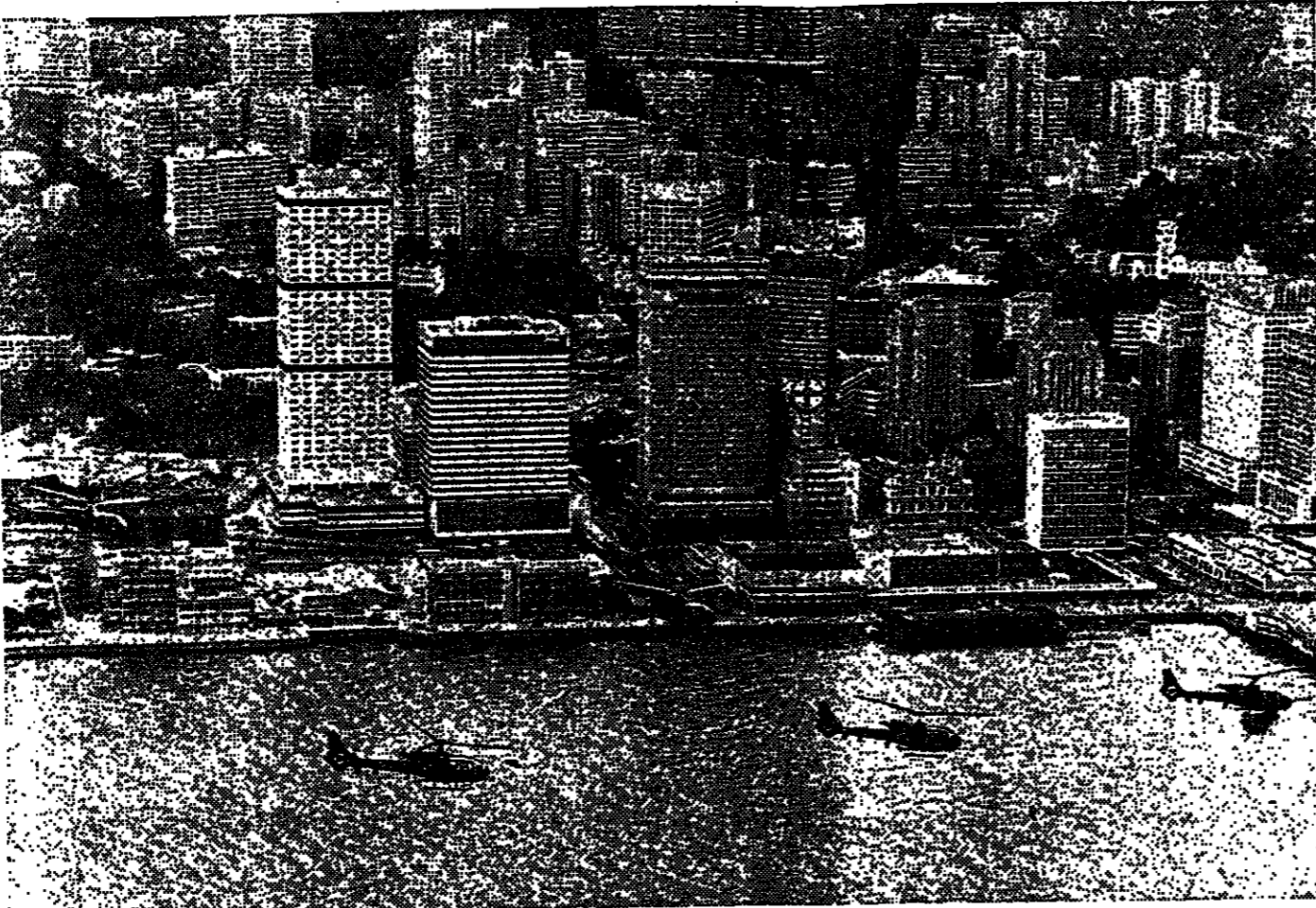
By CHARLES SMITH, Far East Editor

UNCERTAINTY ABOUT the future has been a fact of life in Hong Kong ever since the early post-war period. It is a fact of life to-day, though not for reasons which prevailed as recently as a year or two ago and perhaps not as urgently or disconcertingly as in the recent past.

The most important condition for the survival of Hong Kong — the support and approval of Peking — seems assured for the time being. There has been no serious doubt about the Chinese attitude to Hong Kong since the late 1960s when the cultural revolution spilled over the frontiers of Kwangtung Province and caused what looked at the time like an attempt to take over the Colony from the inside. The attempt did not succeed and was apparently not supported by the Central Government in Peking, although it seriously damaged the confidence of local businessmen in the Colony capacity to survive.

Since 1967 Hong Kong has been given good reason to believe that China favours its continued existence—although no terminal date has ever been set on its "life expectation." The assurances of Chinese interests have grown warmer since the pragmatist supporters of vice-chairman Teng Hsiao-ping regained power and influence in Peking. Indeed China seems intent, for the time being, on extracting the utmost from Hong Kong's free enterprise economy by maximising its exports to the Colony and even by making direct investments.

The friendly attitude of China means that there should not be too much difficulty in settling one of the trickier problems that seem likely to crop up in the next year or two—that of "clarifying" Britain's juridical position in the New Territories. The British title to the New Territories (which constitute



Westland Gazelle helicopters of 11 flight, Army Air Corps, fly in formation over Hong Kong Island's Central District.

the whole of Hong Kong apart from Hong Kong Island itself and part of Kowloon) is based on an 1898 lease signed with the Imperial Government of China. The lease expires in 1997 and can certainly not be renewed because the present Chinese Government has declined to recognise its validity.

The problem which faces Britain is to produce a formula which will satisfy holders of

land in the New Territories that their leases will remain valid after 1997 but which will not risk upsetting China by placing any other firm date on the duration of the British "presence."

There seems little doubt that a formula can and will be found at some time during the next three years or so. It is equally clear, however, that business confidence in Hong Kong may be slightly more fragile than usual during the period of British expatriate officials who

decision-making on the lease problem.

A major factor in Hong Kong's confidence about its future is the attitude of Britain to its internal affairs. This is regarded as being less than totally understanding or sympathetic, not only by the Hong Kong business community which tends to snort indignantly at British efforts to "meddle" in Hong Kong affairs, but also by Chinese businessmen who

sometimes seem to be out of step with their colleagues in London.

One reason for the development of misunderstandings seems simply to be that officials (and the general public) in Britain find it increasingly hard to keep up with what is going on in Hong Kong. Another problem is that misunderstandings tend to get distorted or enlarged in the service of local interests. Hong Kong and Chinese businessmen who run small and medium sized concerns, and who are the main targets of efforts to reform employment practices in the Colony, have been known to defend themselves (through industry associations) by alleging British "interference" in local affairs. In Britain the temptation exists to cite "Dickensian" working conditions in Hong Kong as a justification for putting up barriers against Hong Kong imports.

Awkward

The state of Hong Kong-U.K. relations (as well as many other aspects of life in the Colony) depends heavily on the Governor, who must be administrator, politician and diplomat in order to do his job properly. Sir Murray MacLehose who retires in August, 1979, after two extensions of his term, seems to have made the best of an awkward situation in his handling of the job. He has managed to make demands for more welfare spending look like a personal crusade rather than a British ultimatum transmitted through Government House.

Sir Murray's popularity seems to have risen steadily during his seven years in the Colony—although his credibility took

something of a knock at the end of last year when he was pushed into announcing an amnesty on investigations by the Independent Commission Against Corruption (ICAC) into police corruption cases dating from before the beginning of 1977. Finding a new man to replace him will not be easy and this will apparently be postponed until after the next British General Election on the grounds that the Hong Kong Governor must have a working relationship with British Government in power.

Sir Murray is not the only key figure who is going to have to be replaced in Hong Kong in the near future. A fair number of top British civil servants among the 450 or so expatriates who continue to hold administrative posts in Hong Kong will be due for retirement within the next two or three years. Many may opt (or be pressed) to stay on, but Hong Kong does seem to be reaching the point where it needs either a new influx of manpower from the U.K. (perhaps not easy to find now that Britain has ceased to run a career colonial service) or a transfer of senior posts into Chinese hands. The ability of home-grown Chinese officials to take over from expatriates is not in doubt. What may be in doubt is the extent to which Hong Kong will be willing to see the first and most important step towards independence and self-sufficiency from the "colonial power."

The last and most serious uncertainty that Hong Kong has to face is related to exports. In a rather negative sense the outlook is, admittedly, more predictable today than it was six

months ago—at that time Hong Kong was still waiting for the outcome of negotiations on a new five year textile agreement with the EEC whereas now, with a highly restrictive agreement having been signed, it at least knows what to expect in Europe.

Worries

In a broader sense worries remain about the impact of worldwide moves towards protectionism on the Colony's exports. Hong Kong has been exporting 80 per cent or more of its gross domestic product since the early 1960s, and thus can hardly fail to regard access to overseas markets as a matter of economic life or death. Its export earnings are divided roughly fifty-fifty between textiles (including garments, of which Hong Kong remains the world's largest exporter) and other light industrial products such as toys and electronics.

The classical Hong Kong strategy in the face of quantitative restraints against its textiles exports has been to "trade up" (that is, increase the quality and value the product without increasing quantity). The scope for continuing to do this is probably by no means exhausted. The textile industry, whose original move into garment making constituted the first and most important "trading up" exercise, can still make further excursions into the world of fashion (that is, by producing its own designs instead of or as well as turning out those from Paris). Ultimately, however, Hong Kong will no doubt have to admit that it has ridden the textile

boom as far as it can and shift the emphasis permanently to other sectors.

These new sectors are unlikely to be in heavy industry but in Hong Kong is too to encourage investment ventures that cannot be accommodated in multi-story buildings. The sector to therefore, will presumably electronics, where some companies are already doing the technical work of Japan, as well as anything that combines a fast step innovation with limited facilities of automation.

A field which does require innovation, and which benefits from the telecommunications facilities available in Hong Kong, is inland banking and finance. It is surprising to find that Hong Kong's financial sector has not flourished spectacularly in the past few years despite its status as one of the world's financial centres like Singapore to attract their share of it.

Hong Kong's future is a place where decisions taken with a view to the next ten or 20 years are likely going to remain hard to predict, at least in the short term. The Colony will continue to make its living by offering a special kind of freedom to those wishing to take advantage of it—freedom to make money within a stable environment and with the aid of official intervention. Since this kind of freedom is not widely available elsewhere in Asia, Hong Kong will sumably continue to flourish.



Sir Murray MacLehose, Governor of Hong Kong.

CONTENTS

The economy	III	Property
China	IV	Trade
Britain	IV	Housing
The Stock Market	VI	Light Industry
Banking	VII	Lantau
Commodities	VIII	Macao
Gold	VIII	Trade with Japan
Textiles	IX	The Police
Labour	IX	The drug problem
Communications	X	Profiles
Mass Transit Railway	XI	Tourism

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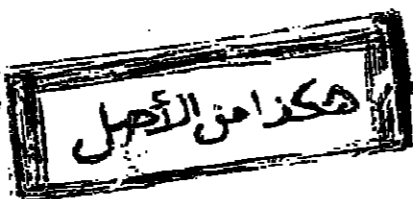
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The toy industry remains one of Hong Kong's major export corners.

The somewhat freakish behaviour of the economy during 1977 has left Hong Kong wondering whether its traditional policies based on private enterprise are still adequate. The next few years may well see a slowing down of the growth rate.

The economy

HONG KONG'S economic record for the past few years seems to justify the Government's frequently proclaimed faith in the virtues of private enterprise. The economy has been managed with a minimum of official intervention. Budgets are normally in surplus, there is no inflation and interest rates are low. The exchange rate is stable and the money supply is controlled. It has been a success story on classical free market principles and, with an absence of controls, the Government has been able to maintain a steady growth rate of about 10 per cent.

But there has been a change in the pattern of growth. In 1977, the economy grew by 17 per cent, a record for Hong Kong. This was due to a combination of factors: a strong export performance, particularly in textiles and electronics, and a surge in construction activity. The Government has been able to maintain a steady growth rate of about 10 per cent for the past few years, but the 1977 performance was exceptional.

The question which confronts Hong Kong today is whether the traditional recipe for non-inflationary growth, with its emphasis on export earnings and a tight money supply, is still adequate. The classical pattern is being fully restored, but the question remains whether it is still adequate.

BASIC STATISTICS			
Area	404 sq. miles	Exports to U.K.	\$440m.
Population	4.44m.	Trade (1977)	
GDP (1976)	\$HK\$7.1bn.	Imports	\$HK\$4.7bn.
Per capita	\$HK\$1,790	Exports (to end Sept.)	\$HK\$4.8bn.
Trade (1976)		Imports from U.K.	\$271m.
Imports	\$HK\$3.3bn.	Exports to U.K.	\$454m.
Exports	\$HK\$1.6bn.	Currency	\$1=\$HK\$2.54
Imports from U.K.	\$204m.		

more slowly than the Government had expected (by only 5 per cent in quantity against official forecasts of 8 per cent.), the economy as a whole grew surprisingly fast (12 per cent in real terms). The somewhat freakish behaviour of the economy last year has been officially diagnosed as a "temporary departure" from the normal pattern of export-led growth, with the main explanation lying in the growth in the previous year was remarkably rapid. Exports grew by 28 per cent in 1976, a record for Hong Kong, and this was due to a combination of factors: a strong export performance, particularly in textiles and electronics, and a surge in construction activity.

Spending

The launching of the MTR project in 1974 (after some ten years of hesitation) was managed without a major increase in direct Government spending thanks to the device of setting up a statutory corporation which raised its own funds and is required to make a profit (the Government is the main shareholder in MTR but will apparently sell out later to private sector corporations, and other public-sector related projects in the same manner (for example electric power generation, carried out by two large private sector corporations, and public housing, which is the responsibility of another

financially independent statutory authority). The result is that the size of the budget has not grown by leaps and bounds as major projects have been undertaken—public spending, excluding that of statutory bodies, in fact remains at 19 per cent of GDP which is a low level by the standards of most other semi-industrial economies.

While the budget has remained firmly under control, however, the construction and civil engineering industries have been expanding by leaps and bounds. Construction expenditure (stimulated in part by what may have been a temporary boom in private housing) rose 34 per cent in 1977 to reach 12 per cent of GDP, or the highest level since 1969. Construction industry wages rose much faster than wages in industry as a whole—in some cases drawing off workers from export industries. Overall costs held stable thanks to a worldwide slump in demand for building materials, but building material prices were showing signs of picking up at the end of the year.

The danger posed by over-expansion of the construction industry is that it could cause an overspill of inflationary pressures into the rest of Hong Kong's economy, which would not be automatically choked off, as in the past, by adjustments in the foreign exchange position. If this were to happen Hong Kong might find itself heading for something vaguely resembling the experience of Britain in the 1960s and early 1970s. In other words the economy might continue to grow at a moderate rate while exports slackened off and the balance of payments slipped into deficit.

The cure for such a situation, in Hong Kong's case as in that of the U.K., would be for exporters to produce and sell more than ever. But it is at this point that another awkward problem has to be considered. Hong Kong's textile and garment industries, which account

for half of its export earnings, are being gradually hamstrung by export quotas or voluntary restraint agreements imposed by major traditional importers such as the EEC, Canada, Australia and the U.S.

Hong Kong textile producers have been living with a measure of protectionism in Europe and the U.S. since the early 1960s, and have so far managed to cope by moving up market—that is, by earning more money from the export of a given volume of goods. The garment industry, which has now replaced textiles proper as the Colony's main foreign exchange earner, originally came into existence as a way round the barriers being imposed by western importers of clothes and fabrics. Hong Kong's move into fashion goods represents a further stage in the same process, and most people in the industry seem to feel that "there is still plenty for us to do in textiles."

Diversification

This does not alter the fact that future gains are going to be harder to achieve or that the overall growth in textile earnings may be slower from now on—perhaps half as fast in the next five years as in the earlier

part of the decade. It follows that other export industries must grow faster if Hong Kong is to maintain anything like its old pace of expansion.

A committee of industrial diversification was, in fact, convened in Hong Kong last year under the chairmanship of the financial secretary Mr. Philip Haddon-Cave. Its report, which is due out during the summer, will consider whether there is anything that the Government can do, within the framework of its overall philosophy of non-interventionism, as Mr. Haddon-Cave prefers to call it, to direct industry into new channels.

The contents of the committee's report, if advance indications are anything to go by, is unlikely to be very substantial. It probably will not come up with any radically new proposals to lower land costs in Hong Kong (one of the major deterrents to investment in heavy industry in the Colony), because to do so would involve the Government in "tampering" with market mechanisms in ways that would be officially disapproved of. Still less likely is the adoption of Japanese-style policies of fostering chosen industries with subsidies or protective barriers.

If the Government remains true to its non-interventionist principles it will be up to Hong Kong businessmen to make the necessary moves towards diversification without any official nudging. Fortunately the local business community seems eminently capable of doing this.

Capital in Hong Kong has been freely shifted about in the past two decades or so between textiles, plastic, electronics, property development and a variety of other sectors. Within individual sectors there are signs that industries are becoming vertically integrated (for example, electronics assemblers are moving into component manufacture) as well as technologically orientated. Another encouraging pointer to the future is the rapid growth and diversification of the international financial services offered by banks and trading companies based in the Colony.

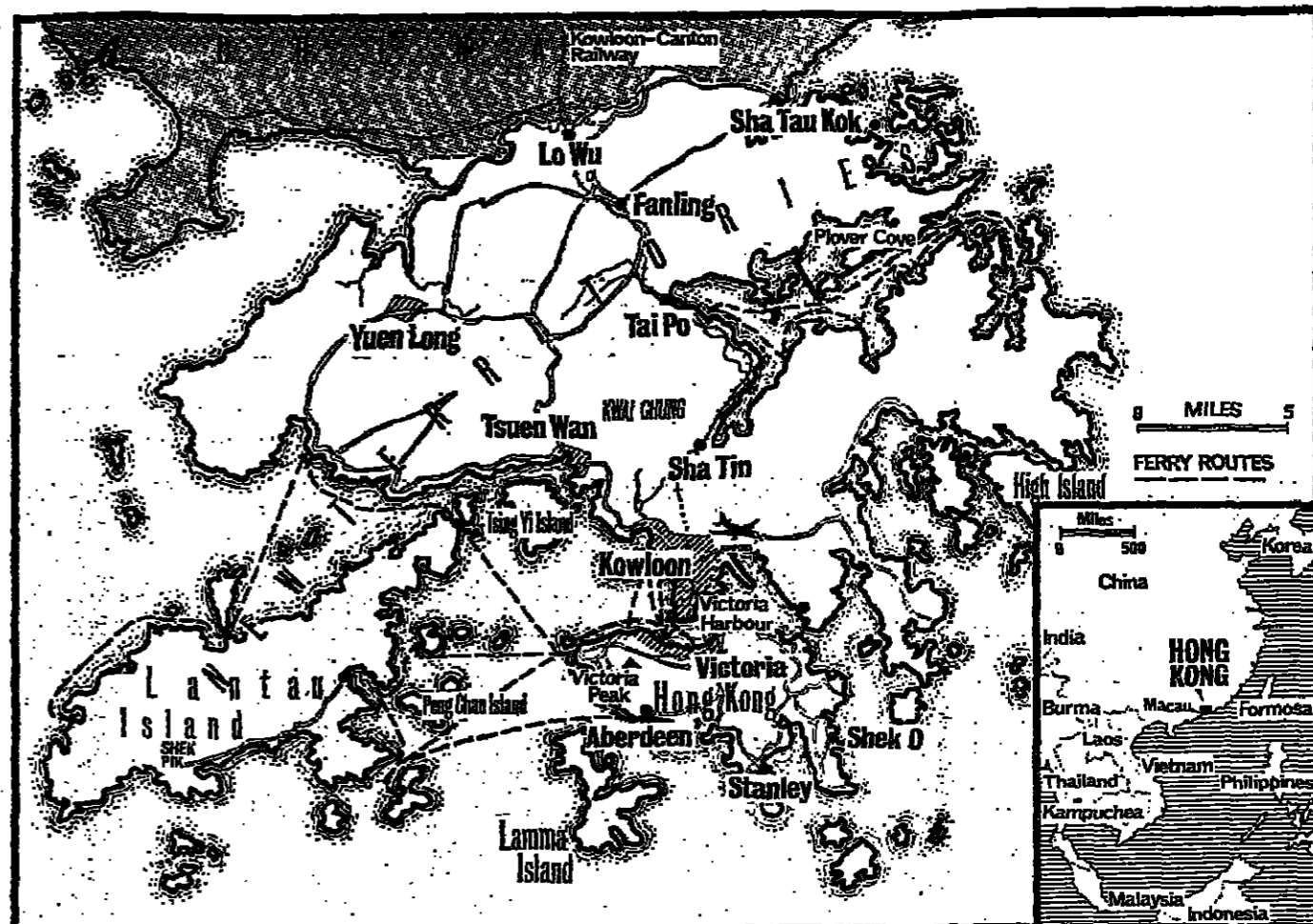
Attractive

Unlike Singapore Hong Kong has not tried to plan its way to becoming an international financial centre. It has, however, provided good communications, an attractive tax structure (shortly to be modified in ways that may be rather less favourable to off-

shore banking) plus a benign neglect of what bankers and financiers may be up to, always provided that certain basic rules and regulations are not infringed. The result has been to turn banking and finance into an important employer and foreign exchange earner. (Although the Government claims to have no precise statistics on the amount of its earnings, Financial services are probably a more important sector than tourism, whose net earnings are now authoritatively estimated to be less than the amount spent by Hong Kong travellers overseas.)

Given the traditional resilience of Hong Kong, it would be rash to conclude that the Colony's balmy days are over and that a period of anything like austerity lies ahead. The economy will probably react positively to the problems now facing it and will emerge more diversified and sophisticated (and thus less vulnerable to protectionist pressures from overseas markets). All this, however, may be combined with a slowing down of the 7 per cent capital growth rate maintained (on average) since the early 1960s.

Charles Smith



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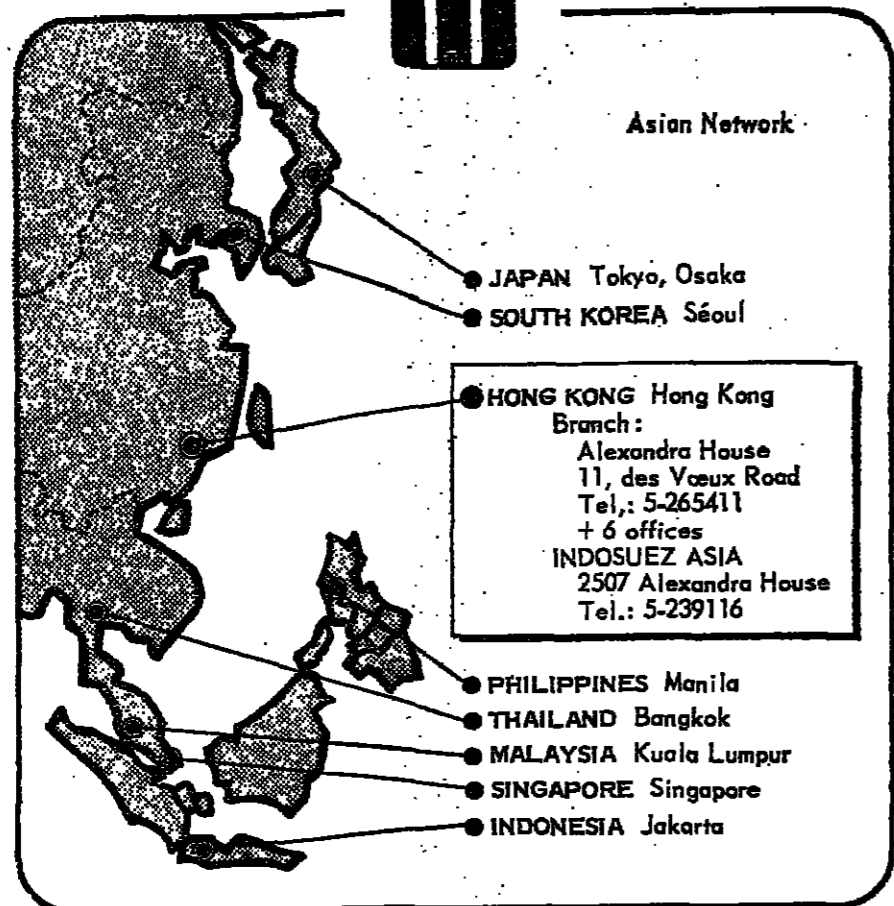
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HONG KONG IV

Although it is generally understood that China is not too perturbed about the existence of the British presence in the New Territories—there are considerable benefits for both sides in the present arrangement—the legal position will remain awkward so long as China refuses to recognise the lease agreement.

China

HONG KONG probably has less reason to-day to worry about China's attitude to its continuing existence than at any time since the Communists came to power on the mainland in 1949. On the other hand, there seem to be some grounds for worry about the effects on business psychology in the Colony of the problems associated with Britain's lease on the New Territories and its expiry in 1997. This is the paradox which confronts any discussion about Hong Kong's future from the early 1980s onwards.

Chinese goodwill is without doubt a far more important factor in the Hong Kong equation than the basically legal problem of what to do about the New Territories. The latter is an issue which strictly speaking concerns only the British authorities in Hong Kong and the tenants of Crown land in the New Territories whose leases carry an expiry date of June 27, 1997 (three days before the New Territories theoretically revert to China with the expiry of the original 99-year agreement signed between Britain and the Imperial Chinese Government in 1898).

Britain's dilemma over the lease agreement is that it cannot negotiate an extension with China because the present Chinese Government does not recognise the agreement's existence. Equally it cannot simply allow existing leases to run on until they expire without any clarification of the post-1997 position.

"Clarification" in some form or other is expected to be made within the next two to three years (or the next five at the outside). Until it comes there will be lingering worries about the possible threat to business confidence posed by (admittedly ill-informed) speculation that Hong Kong's days may be numbered.

China's position with regard to the lease problem can be best

understood in the context of its overall attitude to Hong Kong. The Chinese have repeatedly said that Hong Kong (not just the New Territories but also Hong Kong Island and Kowloon) are a part of China proper and must one day revert to the rule of Peking. This will not be, they add, "until conditions are ripe." The implication is that conditions will not ripen for a good many years, probably not until after Taiwan has reverted to China and the current programme of economic modernisation in China has run its course.

Scenario

In addition to presenting this general scenario China has made attempts during the past few months to lay to rest specific doubts about the New Territories lease expiry. An article published last autumn in *Cheng-Ming*, a Hong Kong Chinese language journal, specifically took up the question of whether China intended to relate Hong Kong's reversion to the lease expiry date and dismissed the theory as improbable. *Cheng-Ming* is regarded as an unofficial mouthpiece of China's new moderate leadership, although its official status appears to be simply that of an independent journal.

China's concern to soothe anxieties about the status of Hong Kong while avoiding putting a firm date on the Colony's life expectancy make excellent sense in the light of the realities of life in Hong Kong itself. The Colony's prosperity is directly linked to the belief of wealthy overseas Chinese throughout South-East Asia that its banks are a safe place to deposit their money. Any suspicion that this was not the case could lead (as happened during the 1967 riots) to a flight of capital and a sharp decline in the overall level of business activity.

Conversely, while Hong Kong remains prosperous it can be

made to yield valuable benefits for the Chinese economy. These benefits are generally believed to be slightly less important to-day than they were some ten to fifteen years ago in relation to China's other sources of income; but they are still profitably indispensable, and China has recently shown signs of realising that they could be substantially increased.

Although official figures are never published, China probably earns nearly \$US\$bn a year through or directly from Hong Kong. These earnings are made up of direct exports (about two-thirds of the total) plus invisibles which include profit transfers from the numerous Peking-affiliated enterprises operating in the Colony.

The list of Chinese-affiliated enterprises is long (and slightly frayed at the edges owing to an uncertain or vaguely defined status of some enterprises). It includes, however, to include nine banks (six incorporated in China, while the remaining three are Hong Kong incorporated but subject to direction from the mainland) six investment companies, three insurance companies, six warehouse and cold storage companies, 11 shipping and travel agencies and about 400 agents and distributors of Chinese products (including independent Hong Kong-based businessmen with interests in other fields as well).

China is Hong Kong's main supplier of fresh food and the source of about 30 per cent of its water supplies (a level which British officials describe as being "some way below the strategic ceiling"). Ten years ago it supplied none of Hong Kong's crude oil but to-day its share of the local oil market stands at about 17 per cent. China has operated an offshore depot at Shatin in the New Territories since 1975 and recently opened a second depot on Tsing Yi Island.

The Tsing Yi depot, with a storage capacity of 40,000

tonnes, is designed to handle heavy industrial oils but will apparently be expanded in future to hold stocks of liquid natural gas, a market which China has not yet entered. Unofficial guesses by Hong Kong businessmen who act as distributing agents for Chinese oil suggest that China may be aiming at an eventual 30 per cent of the Hong Kong oil market.

In addition to the Tsing Yi oil depot China has acquired land in the New Territories to build a machine tool manufacturing plant and a ship repair yard (the latter, on the south coast of Tsing Yi Island, is already equipped with a floating dock). In committing itself to these projects China has bought land (or rather Crown leases on land) in the New Territories on what appear to have been exactly the same terms as other investors. Its oil storage depots are under the management of China Resource, a Hong Kong-based company which is actually under the authority of the Peking Foreign Ministry.

Besides investing in Hong Kong China has shown interest in establishing subcontracting relationships between factories on the mainland and a number of Hong Kong textile or electronics companies. The idea would seem to be that Chinese factories should assemble or make up goods from designs and components supplied by Hong Kong and then ship the finished products back to be marketed as Hong Kong products.

The arrangement makes obvious sense as a means for China to acquire additional foreign exchange and know-how and for Hong Kong to escape from the limitations imposed by a tight local labour market. In theory this kind of subcontracting could open the way to a considerable amount of integration between the Hong Kong and Chinese economies.

Hand-in-hand with its increasing stake in the Hong Kong economy, China seems to be working towards an improve-

ment in physical conditions. Last year the Hong Kong Civil Aviation Authority accepted a Chinese request for the operation of four short flights into the Colony. The purpose of the flights was to bring fresh crabs to the Hong Kong market. These crabs are also thought to be bringing alighting meagre Hong Kong from Singapore (the west) but had made no requests for flights in the middle of last month.

China seems to have immediate plans for a scheduled passenger flight to Hong Kong but it did the last Chinese New Year day. An office of the China National Aviation Corporation (CNAC), which had recently opened in central Hong Kong, announced its readiness to accept bookings on domestic Chinese flights from Hong Kong citizens waiting to fly to the mainland.

China's routine relations with the Hong Kong Government continue to be handled through a slightly bizarre medium of a New China News Agency Hong Kong office—the reason for that Britain has consistently turned down requests to approve the establishment of an official Peking delegation in the Colony. Britain's stubbornness on this issue has occasionally seemed to be causing annoyance on the Chinese side but there is no sign of friction over the issue at present.

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Britain's relationship with Hong Kong is somewhat ambiguous at present. On one hand, there are ideological differences between the Whitehall Government and the "laissez faire" attitude of the Colony as an entrepot. On the other hand, Hong Kong is still a valuable market for British goods.

Britain

HONG KONG'S survival depends on three conditions — the willingness of China to allow it to remain a separate entity, the maintenance of a flourishing economy (without which China would presumably have no interest in maintaining the status quo) and the willingness of Britain to continue acting the outdated role of "colonial authority." Of these three conditions the first two seem to be thoroughly operative today — despite a few doubts about the future of the economy.

The third condition — relations with Britain — is more problematic for two reasons.

One is that very little is publicly revealed about British official thinking on Hong Kong (beyond the occasional routine declaration that the U.K. has "no intention of abandoning its commitments" to the territory). The second is that the little that is said on the subject suggests the existence of serious tensions between the Hong Kong Government (headed by 430 overworked expatriate British civil servants) and the departments of Whitehall responsible for dealing with the Colony.

Hong Kong officials occasionally speak of the "hostility" of British officialdom to the policies pursued in the Colony (especially economic policies which are clearly regarded as being "old fashioned" or "laissez faire"). The British Government also gets accused in Hong Kong (not only by long-term expatriate officials but also by Foreign Office officials on temporary postings) of failing to grasp Hong Kong problems properly.

Serious

One of the reasons for the existence of what seems to be quite a serious communications gap between the Hong Kong Government and Whitehall is probably that keeping up with day-to-day events in the Colony (not to speak of the sometimes perplexing background to events) is genuinely beyond the capacity of the manpower available at the British end. The "interface" for dealing with Hong Kong in London is the Hong Kong and General Department of the Foreign Office, headed by a former colonial official without direct experience of working in Hong Kong.

Routine business relating to Hong Kong is handled by what insiders call the "third room" of this department—in effect a Hong Kong news desk staffed by three junior diplomats whose job is to process and digest incoming messages. Officials at the Hong Kong end admit that

information despatched to Hong Kong Government officials, some of whom criticise the Governor for being torn between his obligations to Hong Kong and his Foreign Office loyalties.

A final detail of the official relationship with Britain which ranks in Hong Kong as that the Colony no longer has a department to "speak for it" in Whitehall. This function was felt to be performed by the old Colonial Office which saw itself as representing the interests of colonies vis-à-vis other government departments. The Foreign Office, by contrast, is seen as "trying to face in both directions" (that is, not knowing whether its job is to stick up for Hong Kong or to pass on orders to Hong Kong from other parts of the Government).

The actual situation appears to be that Britain does from time to time try to influence Hong Kong policies, and occasionally succeeds. Pressure on the Hong Kong Government to change its policies in line with British guidelines can be exerted through the Governor who is technically answerable to the Queen and thus acts as a "hinge" between the Hong Kong and British Governments.

The reactions of the Governor to pressure applied on him from Britain are likely to depend in part on his own past career (that is, whether he is a diplomat, a politician or a Hong Kong Government official by background). The present Governor, Sir Murray Maclellan, whose term of office has been generally considered highly successful, happens to be the first former diplomat to have held the position.

Sir Murray has been personally identified with a series of welfare and development projects undertaken in Hong Kong over the past few years which almost certainly would not have been initiated by a Governor whose career had been spent job is to process and digest incoming messages. Officials at the Hong Kong end admit that

tonot always been well received by Hong Kong Government officials, some of whom criticise the Governor for being torn between his obligations to Hong Kong and his Foreign Office loyalties.

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Official frictions between Britain and Hong Kong have to be seen against the broader background of public opinion more than half as much as economic relations. As far as the former are concerned, it seems that Hong Kong spends a great deal of time worrying about Britain's reactions to its behaviour (especially the criticism of backbench Labour MPs, which invariably make headlines in the Hong Kong Press), whereas, to quote another local official, "hardly anyone in Britain seems to have heard of Hong Kong."

The business and economic relationship exists on another, perhaps more rational, plane. Hong Kong and the U.K. have been involved in hard bargaining during the past few years over such matters as the proportion of Hong Kong reserves to be held in London (now reduced to zero) and Britain's obligation to contribute to Hong Kong defence costs (undergoing progressive reduction under a seven year agreement signed in December 1975).

Bargaining on issues such as these appears to have left no hard feelings on either side but the same cannot be said for

Britain's role in the negotiations last autumn between Hong Kong and the EEC over textile quotas. While British officials claimed that the U.K. sought to "mitigate the EEC's negotiating style," Hong Kong officials came away with the impression that Britain's position at the talks was one of the toughest among the nine EEC member countries.

Britain's visible trade with Hong Kong has been in deficit for the past five years—a fact which might be expected to create U.K. disillusionment with the Colony. The economic balance of advantage, however, does not end here since U.K. runs a large invisible surplus with Hong Kong (officially estimated at between £200 and £300m. in 1975 but not up for Hong Kong or to pass on orders to Hong Kong from other parts of the Government).

Apart from this Hong Kong ranks as a substantial market for British exports, but Britain as China and Japan. Britain's exports to Hong Kong rose 18 per cent in 1977 to \$HK\$1,922m. and it is a great deal of time worrying about Britain's reactions to its behaviour (especially the criticism of backbench Labour MPs, which invariably make headlines in the Hong Kong Press), whereas, to quote another local official, "hardly anyone in Britain seems to have heard of Hong Kong."

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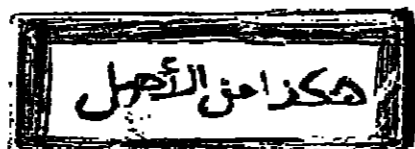
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The reputation of Hong Kong's stock exchanges is not high. The standards of business practice and financial integrity have not improved much during the recent past, and the Government is now introducing legislation to tighten the takeover code and has set up a tribunal to investigate insider share dealing.

HONG KONG'S aim of becoming the financial centre of the East is not helped by the reputation of its stock exchanges. Notorious for their lax standards, insider trading and volatility, the four Hong Kong stock exchanges are sometimes an embarrassment to those business leaders concerned with financial integrity and ethical practices.

Admittedly, stock market behaviour has improved since the 1973 boom when companies which never even existed in reality were listed on the exchanges to raise capital—and were never checked or investigated by any authority. It is also true that the volatility of those boom-and-bust days is now a thing of the past and that in 1977 Hong Kong markets were among the most stable—or stagnant—in the world. But the memories and reputation live on, and cases persist of insider trading—where people inside business use privileged information to their advantage by buying or selling shares ahead of a public announcement.

At last the Government has decided it must act to put the four stock exchanges in order. killing by using inside information because of possible exposure to public censure. The Government hopes this threat of public exposure and censure by professional organisations and fellow businessmen will alter the wayward and the wicked, but it appears to be a blunt hope.

Previous revelations of malpractice over the years in the pages of the financial Press, which minutely documented the activities of several leading businessmen, did nothing to end the practice of insider trading. There are those in the Hong Kong business community who know about these activities, strongly disapprove of them, and do not need lectures and public censure of practices they would never condone for a minute. They again there are those who will not be shamed into "sending their colleagues to Coventry" by a Government-appointed tribunal. The whole exercise is reminiscent of teacher sending a catapult-toting pupil into the corner for 15 minutes before life—and catapult firing—returns to normal at the end of the lesson.

bank, clutching so often the money of small shareholders." One foreign banker pointed out some of the flaws in Hong Kong's stock markets when he said that stricter share listing requirements are essential. As a result of this, the generally easy standard for listing shares on the exchanges, along with the lack of specific requirements to ensure sufficient and open financial disclosures by companies, many overseas investors cannot judge the value and potential of Hong Kong stocks. This deters more overseas investors than the lax standards encourage.

Another common complaint of overseas investors is the unnecessary complexity of a market which has four exchanges. Like many local investors, those from overseas see no need for four separate stock exchanges where the combined daily volume last year averaged a meagre HK\$28.4m. Admittedly this was half the 1976 average and in a recent stock market surge turnover has risen tenfold, but there is still no justification for the existence of the four exchanges. This is another

under one exchange, a culture team will be able to investigate more effectively background of any new listing and regulate professional conduct, while the Commissioner for Securities will be able to enforce legislation more easily.

The broader and less error market with greater discipline which would result from unification will save institutional investors in particular a lot of time and effort. The days of manipulating price movements through exchanges will be over, overseas investors will feel apprehensive about entering this foreign market.

Health

These developments are in the long-term, but in short-run the health and action of the local market will determine more by the world economy, and how that affects Hong Kong, rather than by possibilities which may be finalised the next decade.

After fluctuating narrowly and briefly throughout

Even the Government admits that tougher measures may have to be taken to enforce the standards that are essential if Hong Kong is to change the international reputation of its stock markets. The Financial Secretary, Mr. Philip Haddon-Cave, said it is not easy to devise a method that will trap the culprits only and leave the innocent alone. Consequently the tribunal will be reviewed after two years, and no doubt sterner measures will be contemplated to bring Hong Kong into line with insider legislation elsewhere.

Meanwhile, at the same time, that the innocent are left alone, it is a fair bet that some of the sharks will remain free, and in the words of one local broker "The unscrupulous will continue to lauch all the way to the

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HONG KONG VII

The 12-year moratorium on foreign banks opening new branches in Hong Kong has been abandoned. But this has come at the same time as a more stringent tax regime on offshore banking.

Banking

FOREIGN BANKS can look forward to a more rational operating environment here in future, although they must also expect to meet more stringent liquidity and possibly capital adequacy, as well as a more liberal tax regime.

Some of the uncertainty and confusion created within the international banking community by other ambiguous official statements on taxing banks' offshore earnings is now being dispelled. The picture is somewhat clearer, so, on banks' operating grounds.

What has emerged in the period since Hong Kong's Financial Secretary, Philip Haddad, announced a more stringent tax regime on offshore banking in his March Budget, and since the subsequent announcement of a more liberal policy towards foreign bank branch openings, is:

Offshore loans which are merely "garaged" in Hong Kong, in the sense of being not entries only, will not be subject to the proposed new tax on net interest received.

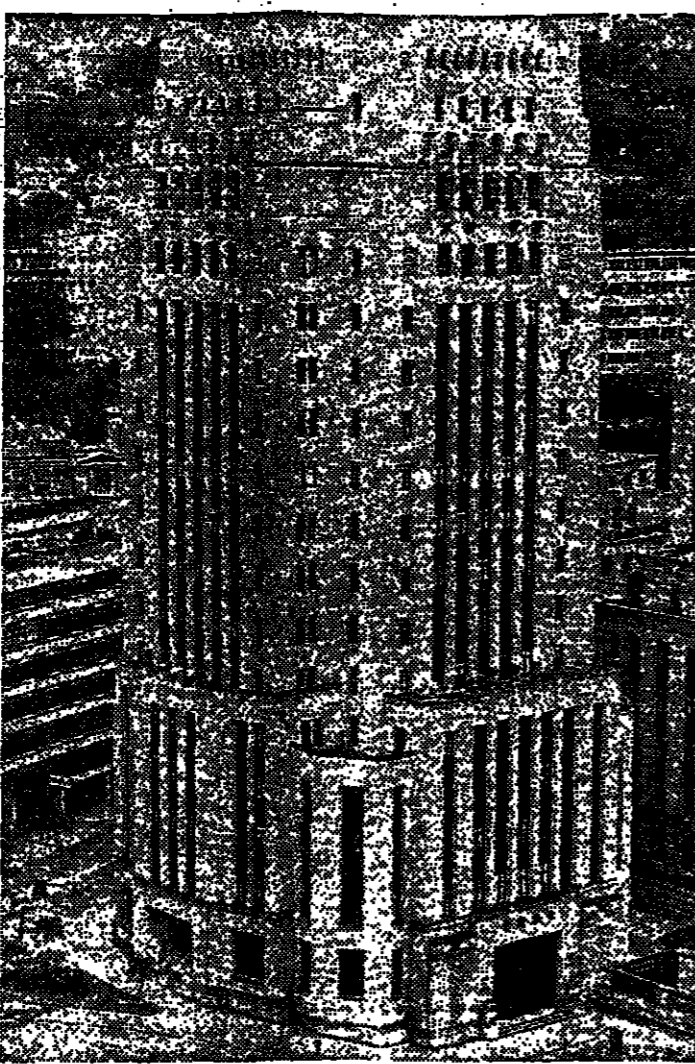
Other offshore loans, where the Hong Kong bank or deposit company has played some part, will be taxed either at a full 17 per cent, or a lower rate where profits are apportioned between Hong Kong and other centres.

To give this, Hong Kong's new statute law will overturn existing case law which applied the "division of credit test" to decide where offshore earnings are taxable.

Hong Kong's decision to abandon the 12-year moratorium on foreign banks opening new branches in the Colony has been dictated partly by a desire to come into line with changing views elsewhere on international banking supervision, as well as a desire to end domestic anomalies.

Not all foreign quasi-banks will opt to become full branches, although those that do not will face reporting and liquidity requirements similar to those imposed only on full banks at present.

These liquidity requirements themselves are likely to be



The Bank of China's building in Hong Kong.

In future, "when a bank or financial institution obtains funds, whether locally or abroad, through its operations in Hong Kong, and places the funds abroad to earn interest, the profits from such interest will be taxed irrespective of the provision of credit test."

This sounds unequivocal enough although some observers feel that the words "through its operations in Hong Kong" are open to interpretation, and possibly to manipulation. Haddad himself admitted that the "totality of the circumstances relating to where and how the deposits are gathered and the funds on-lent" would need to be examined on a case-by-case basis.

If it could be shown that the profits from interest arose partly from the business in Hong Kong and partly from the substantial intervention of an overseas branch—as would happen with some large foreign-currency loans—then a "reasonable apportionment of the profits will have to be made." Where profits were found to be wholly attributable to an overseas branch, no tax would be charged.

Hong Kong's Inland Revenue Department claims to have established procedures for determining who did what, and where, in respect of offshore loans—U.K. tax authorities impute part of the profits from international loans to London where Eurodollar funding is made—and there is review machinery in the Department in Hong Kong to deal with individual objections, which can later be appealed in the courts.

First, however, Mr. Haddad-Cave has to get his new law through the Legislative Council here. The second reading debate was adjourned until May 10 to enable the Council's unofficial (advisory) members to consider the bill in detail. Although non-controversial legislation would normally expect to get through its committee and third reading stages "on a nod," there has already been a good deal of lobbying against this bill by bankers and Haddad-Cave himself admits he is facing a considerable groundswell of opposition.

Reluctant

Even so, the Financial Secretary will obviously be reluctant to compromise the principle of the Bill. He has made it clear for about five years that he thinks banks and other financial institutions in Hong Kong are in an "extremely favourable position (taxwise) vis-a-vis other businesses." This aside, the new tax should yield the government about \$HK30m. a year from its commencement in year of assessment 1978-79, although the "final assessment plus provisional assessment" basis of income tax in Hong Kong means the first year yield will be around \$HK14m.

Haddad-Cave claims to be unimpressed by arguments that Hong Kong's position as a financial centre will be impaired by the long run by the decision to bring at least part of bank's offshore earnings into the tax net.

"Tax advantages are not the

only reason why overseas institutions decide to conduct offshore activities here."

Many bankers, including those in Singapore, who contemplated switching loan portfolios whole-sale out of Hong Kong when they thought "garaged" loans would be affected, would agree. Those with experience of the banking environment in both centres would much rather do business under the Colony's freer regimes—and do so—but the tax-conscious U.S. banks may still reorientate their loan strategies somewhat in the light of Hong Kong's moves. All appeals to hinge on the question of apportionment of profits, and thus on whether the true incidence of the tax here turns out to be 17 per cent, or something more in line with Singapore's 10 per cent on offshore banking and Malaya's 5 per cent.

If foreign banks here are faced with entering a new jungle of laws, at least they are emerging from another one where banks and quasi-banks compete according to different ground rules, and on grounds which are riddled with anomalies.

The Hong Kong Government has now ended its 12-year moratorium on foreign banks opening full branches here subject to a number of conditions, one being that only a single branch is opened in the Colony. A number of banks have already applied for licences under the Banking Ordinance (1964) although others appear content to continue operating under the Deposit-Taking Companies Ordinance (1976), and some are thought likely to opt for operating under both Ordinances.

Those banks which remain as deposit-taking or "finance" companies only—there are currently some 200 of them—will no longer be able to operate in such a liberal (some would call it lax) climate of official supervision as they have enjoyed in the past.

Beyond the stipulation that they could not take deposits \$HK30,000—which was little hardship, given that retail banking is no longer highly profitable of itself—and that they could not operate current accounts, the finance companies were never subject to prudential supervision of the kind that full banks in Hong Kong had to conform to.

They were not required to maintain minimum liquidity ratios, and to detail them monthly to the authorities, as the banks are. The main justification for this, on the grounds that the finance companies were not collecting small deposits from the public (and that bigger depositors could take care of themselves), failed to take account of the fact that deposit-taking companies are often buyers of funds from the banks in the inter-bank market, and who was to say whether those funds belonged to the small or big depositors of the banks.

So, the finance companies too will have to maintain minimum prescribed liquidity in future although the liquidity ratio will be different from that of the banks, given that deposits with bona-fide finance companies are generally of longer maturity, and they might find it a strain to hold too much of

their total assets in the form of low-earning liquid assets. At the same time, the suitability of the liquidity requirements in the Banking Ordinance will be looked at to try and determine acceptable common forms of liquidity for both types of institution. The finance companies will also be required to make monthly reports to the Commissioner of Banking. This will require free legislation.

This should put both types of institution more on an equal footing although the banks themselves, which can gear up on their fixed capital as much as they deem prudent (or dare to according to the bank concerned) may soon be limited by officially prescribed ratio in this respect, as presumably would finance companies. The Government secretariat admits that "capital adequacy" is something it might have to look at.

Probably the biggest anomaly ended by the present moves is that whereby foreign banks with the word "bank" in their title have been penalised since the Government moratorium on new branch openings by foreign banks in Hong Kong was introduced in 1966, to prevent the Colony becoming over-banked and to stave off further bank failures such as that of Canton Trust in 1965 and others before it.

After that, entry incognito in the guise of a "Finance Company" and under the deposit-taking companies ordinance forbade the use of the word "bank." And foreign banks had to get round that one by incorporating local companies, Chemical Bank became Chemical Finance HK and Bankers Trust became BT Asia, Ltd., for instance. More than prestige alone was lost in areas such as foreign exchange markets, where banks rely on their name, but those stuck with the name "bank" were more galled by the fact that others lucky enough to be called simply, say, "Credit Lyonnais" or "manufacturers Hanover" could operate through branches of their parent in Hong Kong and not as locally incorporated companies.

Lending

The distinction was more than academic because, with the assets of their parent companies available to branches they were to embark on more adventurous lending policies than locally incorporated companies with much more limited assets, and who might find guarantees from their parents hard to come by.

Everyone might recognise the name behind the finance company's alias but it was a moot point whether the parent had a legal as well as moral obligation always to bail out over-adventurous offspring. A bank which is called a bank can now register as such in Hong Kong and be at little if any, disadvantage to the quasi-banks on supervision, yet still enjoy a direct deposit base, albeit limited to one branch.

This is not all selfless reform on Hong Kong's part. An informal committee under the auspices of the Bank for International Settlements, and representing the Group of Ten plus Switzerland, recommended recently that the monetary authority of a country in which a bank is incorporated should be responsible for the obligations of its branches worldwide.

By opening the door again to foreign incorporated banks, and thereby discouraging locally-incorporated quasi banks, Hong Kong is throwing the onus for supervision back onto other central monetary authorities. Thus, when Mr. Haddad-Cave said recently that potential entrants under Hong Kong's new liberal regime must be incorporated in countries where monetary authorities exercise "effective supervision" he clearly had the recommendations of the BIS committee in mind.

The idea of "limited licence" banks has been scrapped as the banking authorities here believe there is nothing that banks cannot now do, by opting to become either full banks or deposit-taking companies, or both, that they could do as limited licence banks. It is arguable, however, that classifying banks as "banks," whether full or limited licence, might have made easier the current task of deciding what are suitable liquid assets and possibly capital ratios too for "finance companies" which may be bona-fide consumer finance organisations or quasi-banks doing wholesale banking. The idea of the limited licence (or "restricted licence" as Singapore calls them) bank may yet have to be revived, some observers feel.

Anthony Rowley

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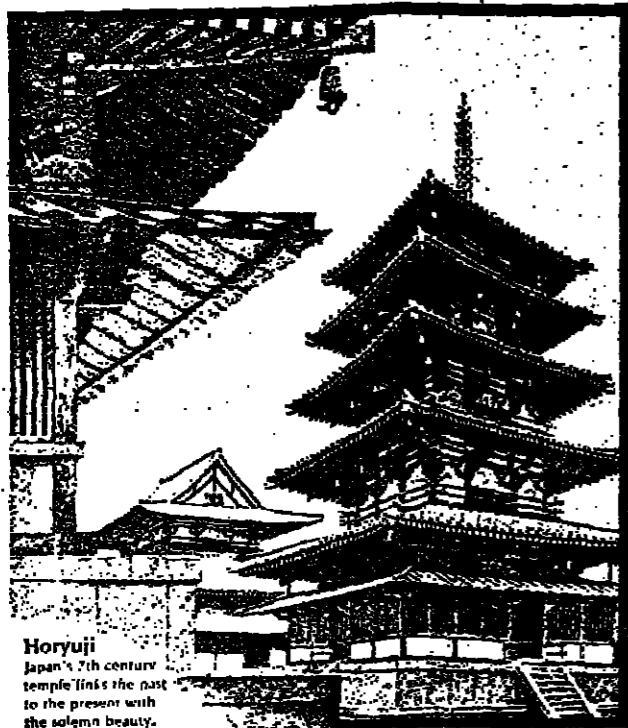
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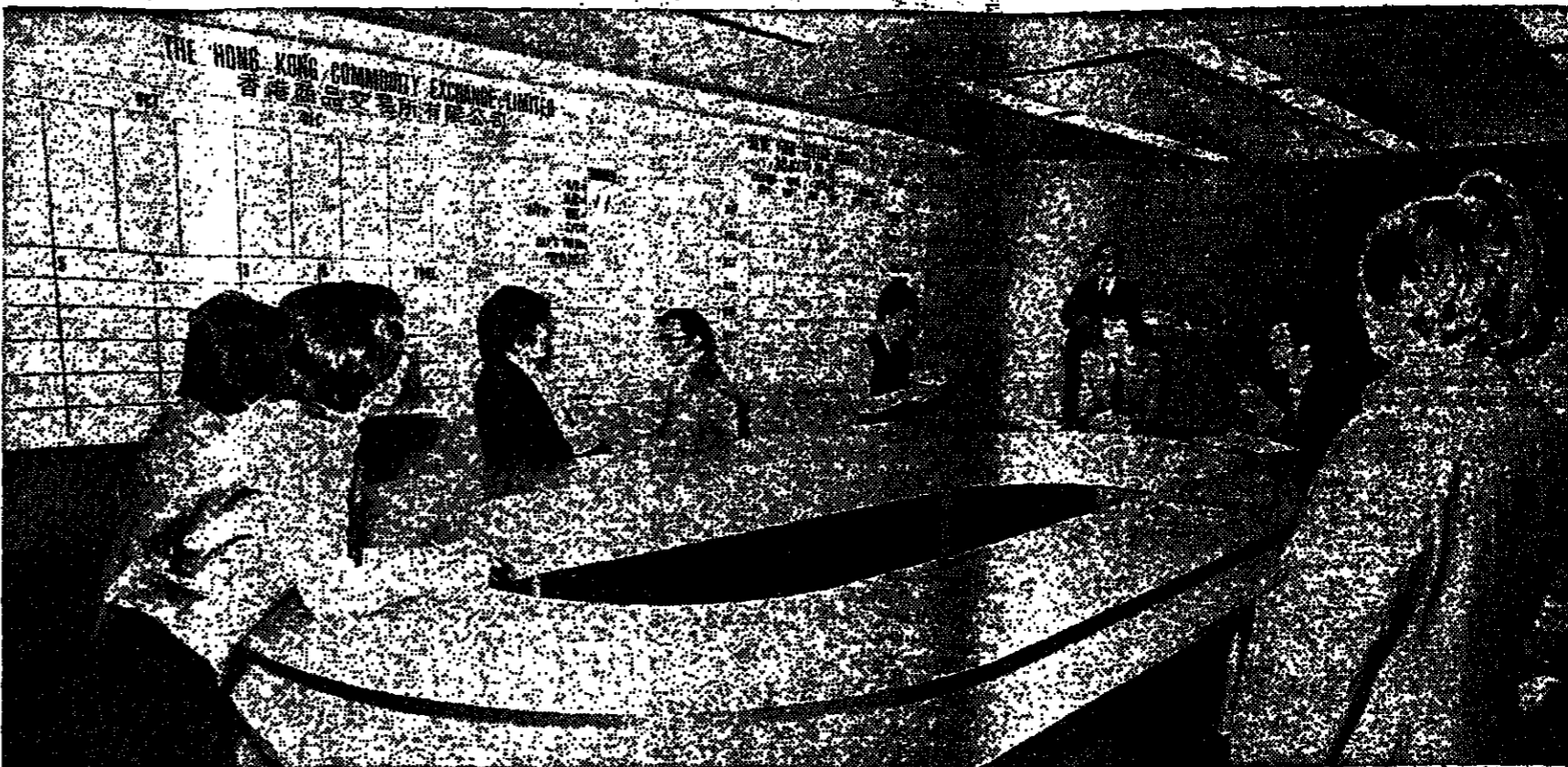
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هكرا من التحويل

HONG KONG VIII

There is an element of Catch 22 in the Hong Kong commodities market—volume is low so local attention is hard to attract, but the position could be reversed if local traders made more use of their own market.

Commodities



Dealers on the Hong Kong Commodity Exchange.

DULL AND featureless are the two adjectives most commonly used by dealers to describe activity on the infant Hong Kong Commodity Exchange. The trading floor is a very different place from the hectic scenes in, say, the Chicago commodity market, where a strong voice, insensitive ears and the stamina of a heavy-weight boxer are needed to survive the ear-piercing din and the frantic activity of even an average day. In Hong Kong the main attributes of a commodity dealer are somewhat different.

Proficiency at poker or other card games, an appetite for reading and endless patience are the main requirements for operators in Hong Kong, where the Commodity Exchange has yet to get off the ground. Except for brief spasms of activity, the market drifts along with only marginal interest. Turnover, especially in sugar but even in cotton, too, is often embarrassingly low, with as few as six or seven lots traded in a day.

The cotton market's record daily turnover of 225 lots is pretty meagre fare compared with the New York market's daily average of over 3,000 contracts. Moreover, the New York contract of 100 bales of 500 lbs each is twice the size of its Hong Kong equivalent.

What is left at the end of the day for the 58 members of the exchange is a very thin amount of commission, perhaps under \$US800 if less than 25 lots are traded. "This barely covers the cost of the papers and books we buy to while away the time," one dealer said, before grinning and adding that it was good thing he was on a fixed salary.

Many exchange members are not even bothering with the market at the moment. They are waiting until the gray thickens—as it surely will, they say.

As one leading international sugar trader, who confessed to having a strong desire to see the local market succeed, said: "If you open two new markets when

the sentiment around the world is very bearish there is nothing you can do but wait for better days when the international market picks up. There just isn't the volume and demand at the moment for the world to need this market."

World cotton prices have fallen by nearly a third since the Hong Kong cotton market opened in May last year. After their steady fall to under U.S.50 cents a pound, cotton prices did recover slightly, but still the bearish sentiment continues and that is bad for speculators, which in turn is bad for trade.

Commodity markets depend on speculators to come in,

create interest and give volume to the floor. But speculators like to take long positions, which give them more chance of making a killing, or at least a reasonable profit, should the dreaded boll weevil eat the U.S. cotton crop or harsh weather lash the Soviet cotton lands. Unfortunately for the Hong Kong market it opened just when the elements and nature smiled on the U.S., which reaped its richest harvest since 1965, and on the Soviet Union, which enjoyed its largest crop on record. These bumper harvests in the world's major cotton fields sent prices into a downward spiral from which they are only just beginning to recover.

Successfully and efficiently in the U.S., Europe and Canada. The Hong Kong should be their own opening indicative price. The Colony's tax then decide whether the firm which clears contracts for the London Commodity Exchange's regional users, have shown an oriental day. Overseas interest in the market is a mix of hedging, as raw material importers prefer to pay the ruling futures market price and accept the risk involved. Even those cotton spinners who engage in hedging are reported to use the New York market which they know and which has good depth and flexibility through the very size of its volume.

The maintenance of international standards is an absolute priority if the market is ever to become an integral part of the worldwide commodity trading system. Just as the Hong Kong gold market ranks among the world's leaders and provides the venue for international gold dealing for nearly one-third of the terrestrial day, so the Commodity Exchange hopes it will appeal to North American and European commodity traders who want to conduct business in large amounts after Chicago closes at night and before London and Paris open the following morning. But such thoughts are mere hopes at the moment and there will probably be several thin years before the years of turnover running plenty see into thousands of contracts. As one dealer noted, it took three years and the Cuban crisis to get the London sugar market off the ground.

First the exchange must con-

vince local cotton spinners that at the Hong Kong market for U.S. Europe and Canada. The Hong Kong should be their own opening indicative price. The Colony's tax then decide whether the firm which clears contracts for the London Commodity Exchange's regional users, have shown an oriental day. Overseas interest in the market is a mix of hedging, as raw material importers prefer to pay the ruling futures market price and accept the risk involved. Even those cotton spinners who engage in hedging are reported to use the New York market which they know and which has good depth and flexibility through the very size of its volume.

Volatile

When activity does pick up in the world market, Hong Kong is well placed to take advantage of the volatility. Unlike New York, which closes trading for the day once the price has moved up or down U.S.2 cents a pound, the Hong Kong Exchange regulations require only a 30-minute "cooling off" period which can be repeated continuously until the end of the natural trading day. When turnover improves, Hong Kong will provide operators with good chances for arbitrage against other markets wherever local prices move out of line with those overseas.

The trading day in the Hong Kong Exchange is designed so that it partly overlaps with business hours in Europe. Liverpool cotton merchants and Parisian sugar dealers can look

Confidence

Despite the gloom surrounding the Commodity Exchange there is still a large amount of confidence that the decision to open futures markets in cotton and sugar will one day pay off. Officials are sure that it is only a question of time before Hong Kong establishes itself as an important international market, but they admit it will be a long haul. Chairman of the Exchange Mr. Peter Seales sees it like this. "We have created the market, a framework people can have confidence in, they will use it. It's just a matter of time."

No one criticises the running of the exchange, which is carried out along the lines of markets already operating suc-

The Hong Kong gold market is the very opposite of the commodities market. Highly active as well as internationally significant, it has given the world round the clock trading.

Gold

THE WORLD now has a 24-hour gold market thanks to the role played by Hong Kong. North Americans can sit at their telex machines after the New York and Chicago markets have closed for the day and continue dealing in the precious metal long into their night by trading directly with Hong Kong bullion dealers.

Later in the oriental day, European dealers from Zurich to London hurry to their offices before most of their countrymen have even breakfasted to pick up the first gold price quotation of the day from a quick call to Hong Kong, six or seven hours ahead and 8,000 miles to the east.

The importance of Hong Kong in the international 24-hour gold trading system was underlined recently during Chinese New Year, which closed the local market and so deprived Europe of its opening rates. London's opening price around 7.30 a.m. is based on the prevailing Hong Kong afternoon rate, and with Hong Kong closed London was unable to set its first price for over an hour. Most European gold dealing institutions now operate two shifts so that they can start around 7 a.m. by contacting Hong Kong and bring their positions into line with the latest movements and de-

velopments since they closed down the previous evening.

Hong Kong's position in the world's clock-awake and active while North America and Europe are asleep—ensures that it maintains its place just behind London and Zurich in the world gold market league table. But even this ranking can be misleading, as a hectic day in Hong Kong can turn over much greater volume than either of the two European centres will manage, just as the presently hyper-active New York market often outstrips the other more traditional gold trading centres.

Solely in Chinese and has its own unit of weight—the tael which is roughly 1.191 ounces—and its own standard of gold bar purity—which at 99 per cent, lags behind the 99.5 per cent purity of both London and New York good delivery bars and Zurich's 99.9 per cent.

Alongside the local market, which opened its premises in 1904, has grown more recently the international market, comprising major bullion houses which connect Hong Kong with the main gold centres of the world. Each year new members join the expatriate community to take advantage of Hong Kong's location. The latest addition to the group is one of the five members of the London

Hong Kong turns over some 1.5m ounces of business, worth currently about U.S.\$240m. Such impressive turnover figures put the four local stock exchanges to shame. Collectively they often muster only as little as \$U.S.3-4m. of business while even on a busy day they fall far behind the gold market in volume terms with rarely more than US\$3m.

Gold dealing in Hong Kong is divided between two markets, the local and the international. The Chinese Gold and Silver Exchange Society conducts business solely in Chinese and has its own unit of weight—the tael which is roughly 1.191 ounces—and its own standard of gold bar purity—which at 99 per cent, lags behind the 99.5 per cent purity of both London and New York good delivery bars and Zurich's 99.9 per cent.

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gold pool, Johnson Matthey. The local market is usually more active than the international one, with local dealers doing business for every ounce of gold. Boarding (maids) to multi-millionaire tycoons (tycoons). Long-term investors do exist, but in the past the rapid price change has attracted speculators who come into the market to give it the edge of volume. As one dealer says, "This market is about the closest thing to gambling I know of. Hong Kong has the all-powerful Jockey Club hasn't got its licence on."

The force of the local market is felt increasingly worldwide as the sentiment of local traders often makes their European, North American counterparts look up and take notice. A recent surge in the price of gold, which took it through the tax-savvy barrier, was fuelled by Hong Kong dealers who were very bullish. Can then entered the local market and demand took over the initiative to drive the price to a record \$190. But the price came down again, and then operators in Hong Kong put their judgement, but with solid gold, was right.

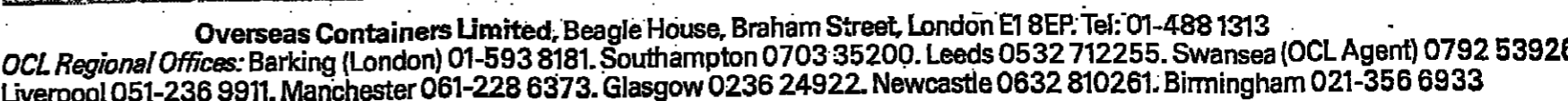
By a Correspondent

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Mary Lee

HONG KONG X

Hong Kong has a prime place in international communications, with one of the most sophisticated networks in Asia—thanks in part to its geographic location. But the crowded nature of the heavily populated Colony has created serious pressures on the domestic front.

Communications



The television satellite transmission room at Cable and Wireless, Wanchai.

Communications have been one of the essential features in the shaping of Hong Kong's commercial life since the colony was founded. Almost immediately Hong Kong became the centre point in South China's coastal trade and the Asian mid-point of the Europe-to-Japan trade. However, the importance of the Colony was

minimised by the lack of effective communications with London, which gave rise to the trading houses such as Jardine Matheson and Dent and Co.

During the 1865 banking panic Hong Kong's isolation was emphasised by the fact that some concerns—Jardine Matheson—were able to dispatch their fast clippers from Calcutta (the cable's last port) to outrun the mail point and thus withdraw their funds before their competitors. Shortly afterwards the cable was extended to Hong Kong and the entire commercial complexion of the Colony was changed for almost overnight. The older houses which had monopolised communications with their clippers were no longer as important, since the decision could be made in London in less than an hour, thus eliminating the need for the highly independent "man on the spot" decision that characterised the early trade on the South China coast.

Sophisticated

Hong Kong's present communication network is among the most sophisticated in Asia, employing an estimated 55,000. However, because of Hong Kong's peculiar location at the tip of South China and as a centre for South-East Asian trade, plus the tremendous population density that is the result of 90 per cent of the 4.5m. inhabitants being packed along a narrow harbour edge, the Colony is facing a tremendous problem in keeping pace with the demand on facilities.

The harbour bears the brunt of the physical communications load and is a tangle of criss-crossing ferries and freighters departing or pulling up to moor in-stream, awaiting the lighters and smaller craft that effect the unloading. Several years ago a local paper ran a contest in which the object was to photograph the most ferries crossing the harbour. The winning picture had 23 vessels in view and is fairly representative of the dependence of the colony on its ferry service.

In 1977 the ferries carried 184m. passengers most of whom were simply crossing the harbour. However, the expansion on the outer islands such as Cheung Chau, Peng Chau, Lamma and Lantau has caused ferry fares to rise alongside a dramatic increase in the number of passengers. It seems

likely that as these islands are developed the ferry services will become even more regular and that this will offset some of the losses anticipated as a result of the Mass Transit Harbour Tunnel.

The harbour, which is rated around seventh in the world in terms of natural advantages, accounted in 1977 for 15m. tonnes discharged and 6m. tonnes loaded. The container terminal at Kwai Chung moved 1.2m. TEUS (twenty foot equivalent units) to move into the No. 4 spot in the world. Hong Kong's position is enhanced by a strong river trade with China, which last year accounted for about 1m. tonnes discharged and another 200,000 loaded.

The harbour is particularly suited to its role as both a transshipment centre for the South-east Asian trade and as a major export point for the goods generated by the Colony's growing light industries. Conventional ships are unloaded in stream by lighters, a method which has several advantages. Ships are turned round quickly because they do not have to wait for a quay to open up, the ships can clear as soon as unloading is finished, and the cargo aboard a lighter indirectly increases the amount of godown space available. The lighters are very flexible in the types of cargo that they can unload and can deliver their loads to the most advantageous spot in the colony.

Kwai Chung, the container terminal, handles most of the fully containerised vessels in five berthing areas. It deals with most of the regular trade between Europe and Asia and is located outside the main shipping lanes, thus allowing the container ships easier access than would have been possible had it been built actually within the harbour. Recently the terminal has begun receiving a large amount of transshipment cargo from South-east Asia in specialised feeder vessels. This trade is likely to blossom over the next few years as more container ports come into operation in South-east Asia.

Kai Tak, the international airport, is a finger sticking out into the harbour and for most travellers uncomfortably close to the mountains and the densely packed high rise apartment buildings of Kowloon. It has 6.9m. passengers journeyed up the line, while 6.9m. came down. This works out to a staggering total of around 140m. people per kilometre, probably the world's highest rail passenger density. Ticket sales last year were HK\$334m.

Last year the airport handled 50,050 arrivals and departures carrying 4.6m. passengers. Soon after these figures were announced the annual clamour for a new airport began once again. The most often mentioned site is Lantau, the largest island in the Colony. However, though there are plans to connect the island with the mainland, as yet nothing has been put into motion and thus the airport issue is still a secondary consideration.

More recently, since the improvement in relations with China, the suggestion has been made to build an airport in Canton with Hong Kong experience. The present airport there is crowded as a result of the increase of tourist and airline traffic, and the Chinese have not vetoed the idea. Perhaps one of the most encouraging signs is that flights now can be re-routed to Canton in case of emergency.

The Kowloon-Canton Railway which connects Hong Kong with China is small but among the world's most impressive when considered on a large-tonne per kilometre or passenger per kilometre basis. During 1977 6.9m. passengers journeyed up the line, while 6.9m. came down. This works out to a staggering total of around 140m. people per kilometre, probably the world's highest rail passenger density. Ticket sales last year were HK\$334m.

The railroad is also a major goods carrier—particularly food. Last year 1.4m. tonnes of the average office worker came down the line and another 26,744 were shipped back into China, working out at around 45m. tonnes per kilometre. Obviously, the flood of goods coming into Hong Kong from the vast China hinterland taxes the railway beyond its designed capacity.

As with the airport many discussions have been held in an attempt to try to find a means of coping with the tremendous influx of goods and clearly another line is desirable. However, working within the confines of Hong Kong's limited land area—effectively restricted even more by the fact that most people and industries are located on the waterfront—efficiency and adaptability often have to replace availability.

Taxed

The Colony's network of roads is severely taxed by the buses, cabs, mini-buses and private cars. Public transport is relatively efficient, even if it is not as comfortable as in other cities. With the advent of the Mass Transit system public transport should be effective enough to handle the long lines of commuters that run between the centre and the various districts, frequently taking an hour to cover only a few miles.

However, although the improvements help the plight of the average office worker, a storm is brewing over private cars. The car is very much part of Hong Kong life, frequently given as a perk to expatriate workers, but even with the elaborate flyovers and other traffic systems cars simply too numerous. Government subsidised car parking indirectly aggravates the situation by keeping prices low. Although the storm has not yet broken, the debate is heating up, and more than one has been seen at Singapore's business district.

Communications, whether the telephone system or an airport are thus under severe strain because of the tremendous size of the population relative to the area. Virtual every form of communication needs substantial improvement every year just to maintain the status quo. Genuine improvement is a hard-fought battle against huge increases in demand and next to housing is one of the Government's most trying problems. Communications, which initially made Hong Kong, as nearly broke it in the 1860s, now provides a challenge that must be met if the colony is to continue to grow as a commonwealth.

George Lauri

The prolonged recession in the shipping industry is causing a fundamental change in the Colony's shipping deals with Japan, and consequently breaking traditional strong relations between Hong Kong shipowners and the Japanese shipbuilding industry.

Shipping

DURING THE 1960s Japan found it necessary to build up its cargo-carrying capacity in order to cope with its tremendous industrial expansion. However, the Japanese shipping companies and even the city banks did not have the necessary funds to build enough tonnage to keep pace with the demand, even though the Japanese shipyards had adequate capacity to meet this demand. Furthermore, the banks could not guarantee loans or borrow overseas and thus could not raise the capital to support the massive amount of shipbuilding necessary.

The Japanese Government recommended that ships could be built in one of two ways to relieve the import bottleneck. Japanese flag tonnage could be built in Japanese yards with Japan Development Bank (JDB) support or ships could be built for foreign owners and chartered back by Japanese shipping companies.

Interrelated

In the case of Japanese flag tonnage, JDB could advance up to 65 per cent of the construction costs. The owner was required to raise between 5 and 20 per cent of the remainder, depending on his financial strength, with the remaining 35 per cent to be raised from city banks. This method taxed the already hard-pressed yen reserves of the companies and it was obvious from the beginning that this method would not be

totally satisfactory. The second method of building the necessary tonnage was by the so called "shikumen deal." This involved the chartering in of tonnage built in Japanese yards for a foreign owner. Similar methods had been employed since the end of World War II but shikumen in the classic sense was the result of a special set of economic factors that first became apparent in 1971.

The basic deal worked on three separate but inter-related levels; communications, ship delivery and employment and the movement of funds. Generally the Japanese shipping company started the deal moving by stating to a foreign shipowner (often a Hong Kong owner) that it had a charter and needed a vessel. The foreign owner and the Japanese shipping company would then contact a Japanese yard and build a vessel to the specifications of the Japanese shipping company. Although the Japanese trading houses were omnipresent throughout the deal, they acted more to lubricate than command the flow of business.

The deal was financed through the Japanese Export-Import Bank. EXIM would put up around 70 per cent of the ship's cost at 8.5 per cent interest of seven years, with the shipowner providing the other 30 per cent. Initially the contracts were written in U.S. dollars to match the ship-

owner's cash flows but with the falling dollar exchange rate and increasing yen overvalued, this arrangement became expensive for the Japanese shipyards. The 30 per cent raised through the foreign commercial banks was usually secured against the Japanese shipping companies charter.

Since the Japanese banks were under "administrative guidance" from the Ministry of Finance (which in Japan is nearly the same as law) not to lend or guarantee overseas, the charters were secured by a letter of undertaking in which the Japanese banks agreed to cover the charter. The Japanese Banks, despite their indispensable involvement, did not receive much paper security on these letters, as the vessels were generally secured to the foreign banks. However, under the Japanese system this was not necessarily a large risk because it was assumed that any major shipping line insolvency (such as Japan Line) would be secured by Japan Inc. and that the amount of funds of these shipping companies controlled by the banks provided an adequate warning system.

Hong Kong shipowners became the major partners in the deal because they offered slightly more advantageous conditions than their colleagues. One was that of getting the ship offshore and thus reducing the overheads of the Japanese shipping companies—cum-charterers,

Additionally the Hong Kong owners were well off for liquid resources and benefited from a favourable tax arrangement.

Perhaps most important, they were financiers first and shipowners second. Their interest was less in managing the vessels and they were thus agreeable to long-term bareboat charters, which at the height of the supertanker boom most of the independent owners shunned for the greater profit margins provided by spot market and short-term charters.

In the past five years several things have happened simultaneously to put a virtual end to the shikumen era. The first blow was the tanker slump that began with the Arab oil embargo in 1973 and took effect a year later. The second was the internationalisation of Japanese banks in 1975, which allowed them to set up overseas subsidiaries and lend overseas, eliminating the principal advantages of the deal. Deals were still being made as late as 1977 but as the dominant method of promoting tonnage the system is obsolete.

Slump

The end has left a number of unresolved problems in its wake. The Japan Line request for concessions on its charters with foreign owners, many of which are held by Y.K. Faw's World-Wide group, is simply the most obvious case. A large num-

ber of vessels on charter Japanese companies from Gr. owners are now being displaced and the number of displaced could grow should other specially troubled lines such as Sanko follow Japan Line's lead. Investment in shipping Hong Kong since the rift with the Japanese charterers changed and the Colony's shipowners have focused attention on northern European owners. Generally the interest in buying smaller second-hand tonnage from owners need either a quick injection of capital to keep the business going or who want to reduce overheads by moving operations offshore.

Again the deals are based on the charter back to seller principle but the charters are shorter in duration, usually only three to five years. Consequently the banks financing the deals for the first time have to assess the owner's ability to manage the tonnage because the residual value of the vessel after charter expiry is the basis for the repayment of the loan. In the long term the owner will become more ship operator and less ship financier, with inevitably a good thing for the Colony. However, the relations between Hong Kong shipowners and the Japanese shipping industry, while have not totally shattered, are certainly less fundamente altered.

George Lan



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هكزا من التاجيل

Work on Hong Kong's Mass Transit Railway is now under way after years of planning. The experience gained during the construction and operation of the system will help to determine the approach of other major cities faced with similar transport problems.

Mass Transit Railway

HONG KONG'S Mass Transit Railway project (the label which the Colony has chosen to attach to its first ever underground railway) will not only revolutionise urban travel when the trains start running from September 1979. The effect of the project on the economy is also highly significant. The MTRC (Mass Transit Railway Corporation) work in 1978-79 is expected to reach HK\$2.4bn, or 41 per cent of all spending on public works by the Hong Kong Government.

The MTRC like the Hong Kong Housing Authority is, technically, an independent statutory body, not a Government department, and thus it draws its finances from sources other than the budget. That does not alter the fact that work on the MTR provided one of the major boosts to Hong Kong's domestic economy in 1977 and will continue to do so in 1978 and beyond.

The MTRC, unlike publicly owned urban transit concerns in many other countries is intended to be a profit-making

body whose shareholders will ultimately include the general public. The secret of its profitability according to its chairman, Mr. Norman Thompson, will be the relative shortness of the railway network and the extremely high density of traffic along it. In the mid-1980s, after the completion of the second phase the mass transit system will be carrying an estimated 1.8m. people per day, or about 40 per cent of the population of Hong Kong and the New Territories.

The London underground system carries an average daily passenger load of 1.5m. people on a vastly longer network (roughly 15 times the length of the Hong Kong system.) Mr. Thompson explains that the shortness and high density of the Hong Kong system reflects the extremely high density (and relative lack of suburbs) of Hong Kong itself. The New Territories terminus of the MTR system at Tseun Wan will serve a new industrial town whose population is currently around 600,000 but which could grow by half as much again. In order to accommodate the numbers of people travelling from places like Tseun Wan into central Hong Kong and back, the MTR trains will, not surprisingly, be crowded. Mr. Thompson expects trains to run with a full capacity of 48 people seated and 330 standing on each coach of a six-coach train, giving a total load per train of over 2,250 passengers.

Density

Apart from the sheer density of traffic the MTRC expects to benefit from the scope for property development along parts of its routes. Office blocks over two stations in the Central District of Hong Kong Island are being developed jointly with Cheung Kong Holdings and will yield enough in floor sales to cover the costs of developing the stations themselves (estimated at between HK\$100m. and HK\$200m. each).

In Kowloon and the New Territories the railway project involves the construction of depots which will be covered by podiums on which major housing developments will be possible. The Corporation expects to house up to 25,000 people on the podium covering its Kowloon depot.

The MTRC suffered an initial piece of bad luck (perhaps on bad judgement) when it accepted a fixed price bid from a Japanese consortium headed by Mitsubishi Corporation for the whole of the first two stages of the project. Mitsubishi withdrew its offer at the end of 1974, setting back the start of the scheme by a year. By doing so it presented the Corporation with the chance to invite tenders during 1975 when the Hong Kong construction industry was in recession.

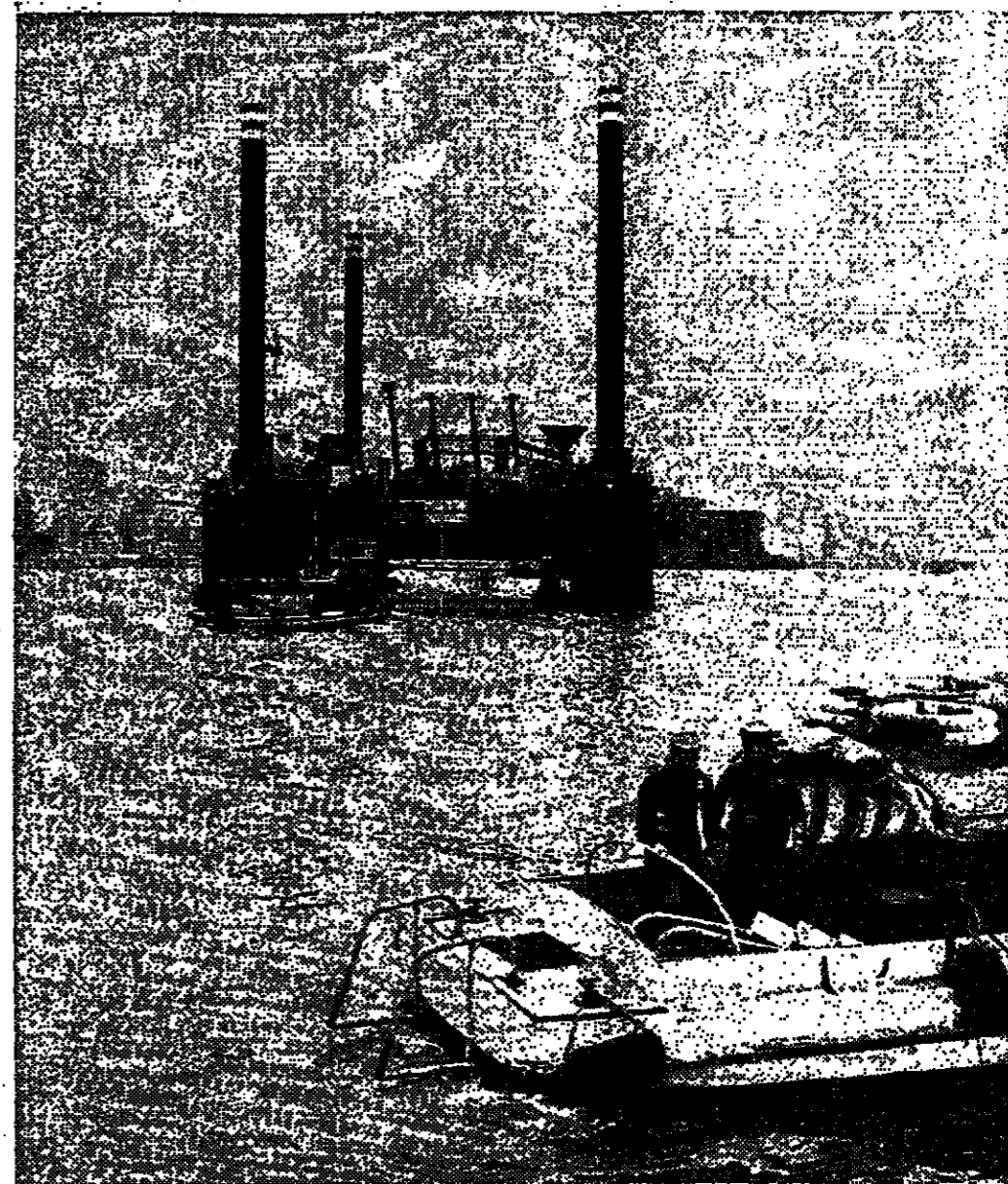
Thirty per cent. of the bids for stage one were invited on a fixed price basis. A handsome share of the engineering contracts for phase 1 were taken by British companies, with the main contract for rolling stock going to Metro-Cammel.

first tenders (civil engineering) write a Hong Kong dollar denominated loan—believed to be the first of its kind.

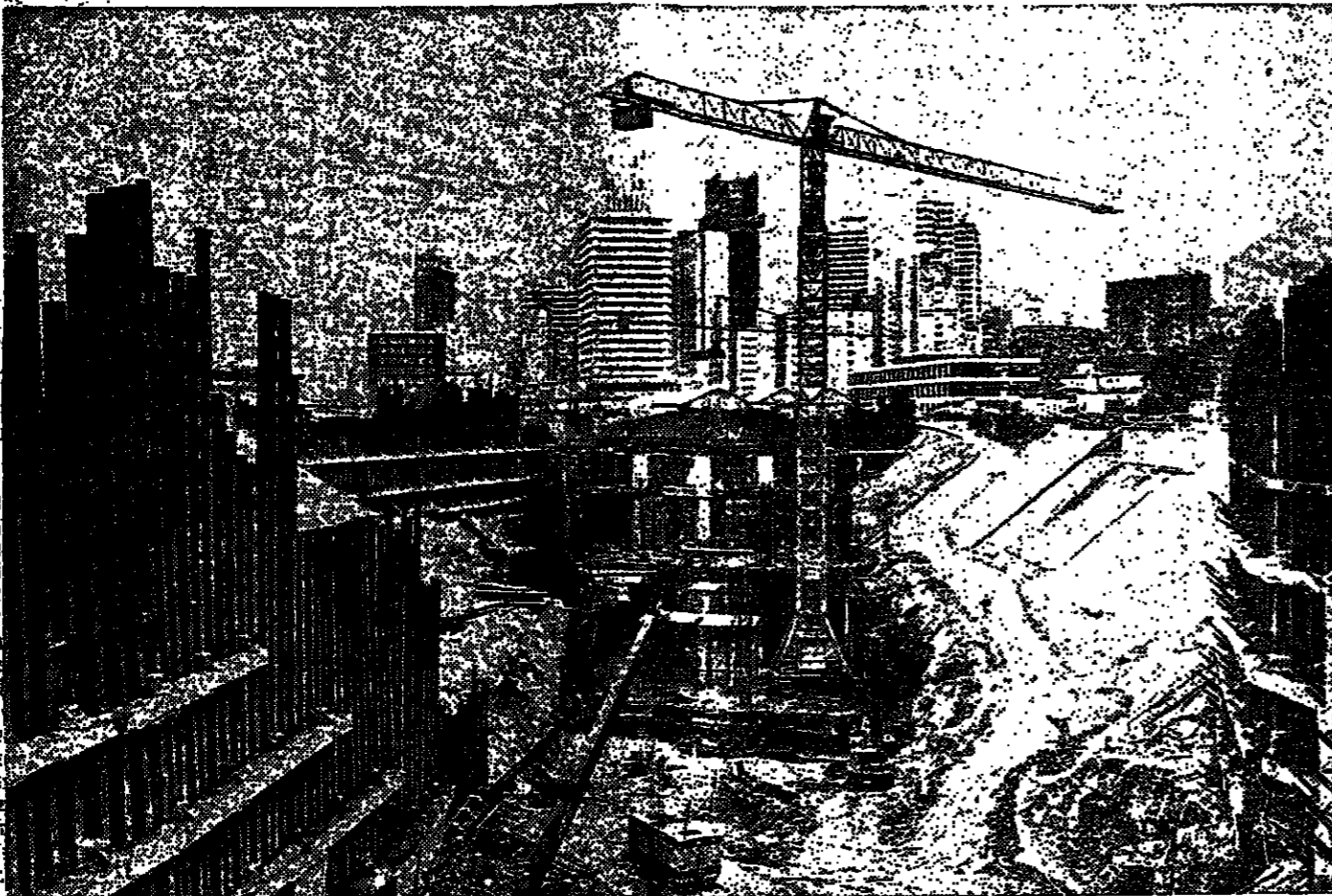
The MTRC seems likely to have a profound impact not only on the transport system of Hong Kong over the next decade but also on the pattern of urban development itself. Mr. Thompson notes that other newly constructed systems have tended to produce a bunching of office and high rise development along the line of the route. This could also happen in Hong Kong, although there will be limiting factors such as the controls on coaches, in addition to the 140 originally ordered. (The option which relate to flight paths into was exercised in order to enable Kaitak Airport. Whatever the number of coaches in one happens in Hong Kong will be train to be raised from four to watched carefully by other Asian six.) In exercising its option cities contemplating under-

The MTRC was successful in ground railway projects. persuading the Export Credit Guarantee Department to under-

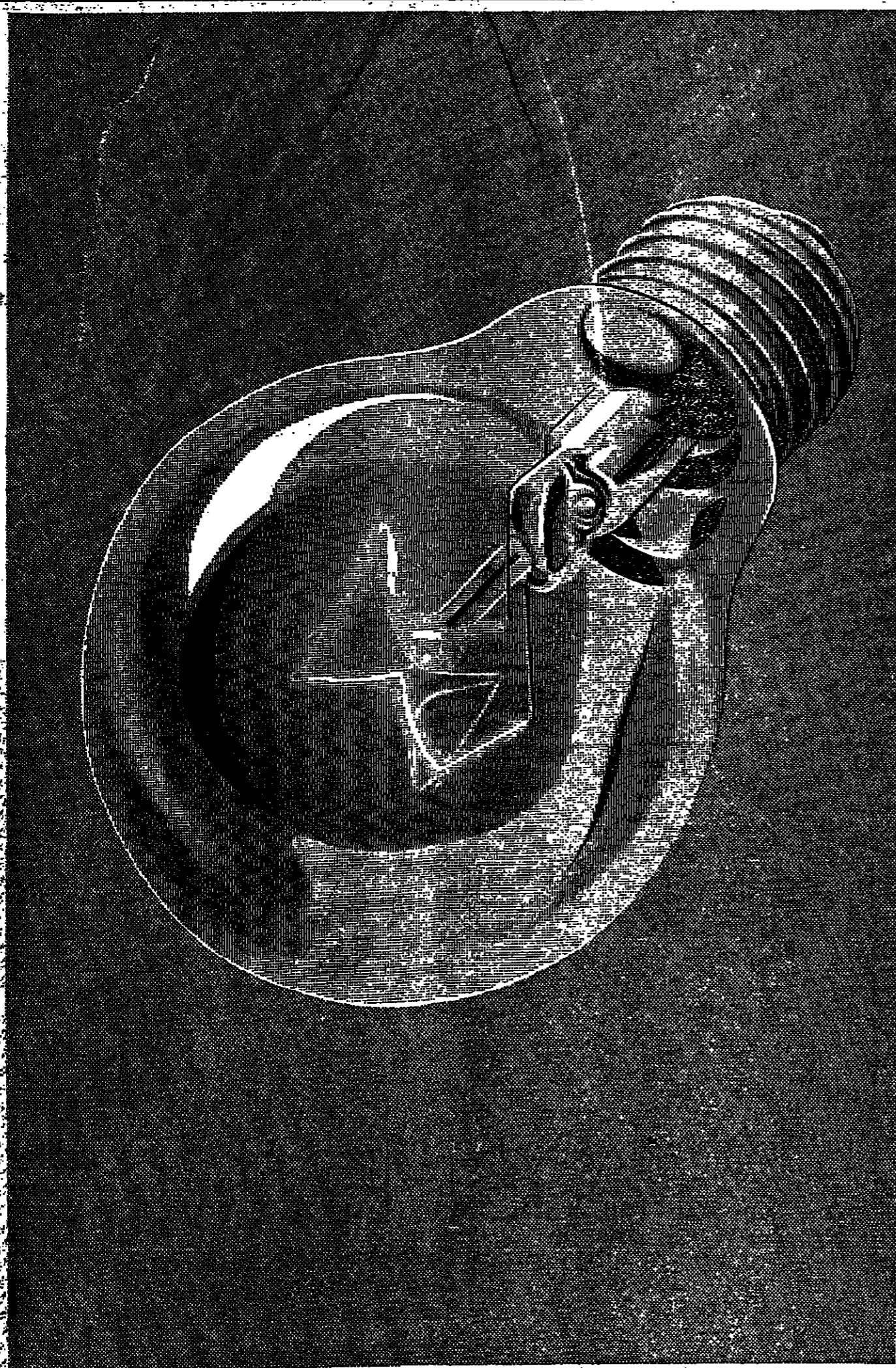
Charles Smith



Divers working on the MTR cross harbour tunnel. To the rear is the tunnel laying barge.



Work in progress on a station for the Hong Kong Mass Transit Railway.



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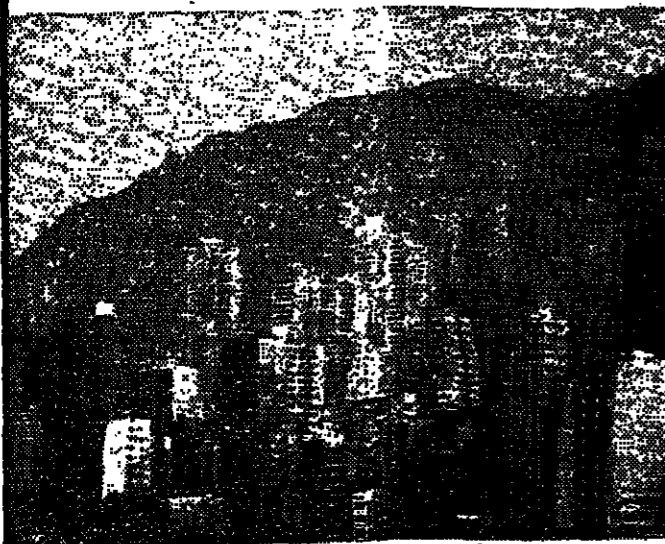


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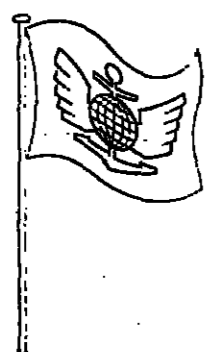
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HONG KONG XII

The domestic property boom in Hong Kong seems to be all but unending, with the promise that it will continue, at least for the rest of the year. The picture is rather less clear for industrial property, where land rather than buildings is the prime attraction. Land prices have rocketed in the last three months.

Property

THE HONG KONG Government has embarked on an extensive programme to replace and modernise its old, overcrowded public housing estates, but there is a danger that to-morrow's slums are being created in the private sector as developers rush to cash-in on the demand for flats at the lower end of the market.

The demand is enormous, particularly for new flats, partly as a result of changing patterns of living, as young couples increasingly favour living in homes of their own instead of with their parents. But even without this factor, there is an inbuilt impetus because, according to Ho Sai Chu, chairman of the Hong Kong Builders Association, there are 715,000 families in the Colony accommodated in some 350,000 flats. (About 45 per cent. of the population live in public housing estates, and the figure is expected to reach 60 per cent. by 1984-85).

Last year 20,870 flats were built by the private sector, a 25 per cent. increase over 1976. He estimates that this year the private sector contribution will rise to 30,000 flats, with another 6,000 from the Government's Home Ownership Scheme. This

extensive building programme should help keep a check on prices, though in the small flat range (300-500 square foot gross area, costing HK\$300-400 per square foot) prices are expected to stay firm or rise by 10-15 per cent., depending on location.

Common

Almost all agents quote a gross floor area, which can include common hall space and even air-conditioning ducts. So despite the rise in prices, in terms of accommodation the value has not increased because the living area of flats has decreased. Stephen Reader, agency manager of Tony Petty Associates, says: "People are living in much smaller flats just to get hold of this real estate, which they feel is going to make them rich in five years. And the developers are meeting the demand by throwing up small flats which are really the slums of to-morrow."

The Consumer Council has called for safeguards against misleading information by developers about building materials, room sizes and financing arrangements. Rents at this end of the market have also been rising

steadily, from an average of HK\$1.70 per square foot in 1975 to HK\$1.73 in 1976 and HK\$1.91 in 1977. The rise is accelerating because in the fourth quarter of last year the average square foot rental was HK\$2.11.

In luxury flats, too, prices have also been rising to meet demand, and here too the trend is reinforced by the demand for rented accommodation, reflecting increased numbers of expatriates. Two years ago the maximum monthly rent expatriates were prepared to pay was HK\$10,000, and the majority paid about HK\$5,000. Now, however, the majority pay HK\$8,000, sometimes HK\$10,000-12,000.

The prices being paid for development land indicate that the upward movement will continue through the year. Land prices are so high and profits so small that developers must be looking for still higher prices over the next 12 months. But this is a relatively small sector in which demand can be met. So if prices continue to rise at the present pace, there is a strong likelihood that a large drop may occur.

The management of private estates presents another aspect

of the "slums of to-morrow" which are going up now are of better quality.

Trevor Bedford, general manager of Hong Kong Land, one of the world's largest property companies (properly prestige blocks bearing their accounts for more than half the company name. Good companies listed on Hong Kong's stock exchange), says: "Land is still to be let and sold fairly that estate management is one easily. Wah Kwong Properties' of the big failures of Hong Kong block in Wanchai, for example, is fully let and achieving good thing positive must be done. Properties is going ahead with to rescue existing property a 50-storey office and shopping which will deteriorate rapidly. A complex on reclaimed land in unless means can be devised Wanchai. It will take two more to provide effective economical years to complete, by which management for multi-owner time overall demand may have ship buildings. New private caught up with supply. (The developers must not be company's confidence in the allowed to drift into such a market was expressed in the situation. Developers must recognise and accept their long and property last year.) term commitments to these. There are already signs that the slack is gradually being taken up, particularly as the owners of most secondary sites in both Kowloon and Hong Kong have been developing residential rather than office blocks, because that is currently where the money is to be made. As soon as the cycle begins again, new areas will emerge. One will almost certainly be the Connaught Road area, con-

veniently close to Central. Shops show a steady trend with the floor area coming to the market rising from 1.2m. square feet in 1976 to 1.4m. in 1977 and a projected 1.6m. in 1978 and 1.66m. in 1979. The main growth has been in Kowloon, with the New Territories beginning to turn out a large area. The index of rent (1968=100) rose from 222 in 1976 to 237 in 1977.

For industrial premises the position is peculiar, with a demand for completed buildings, low rents and low selling prices—but with developers paying very high prices for land. They presumably see a shortage of industrial property in the future, but this is by no means a universal assessment, particularly as 8.8m. square feet of industrial floor space came on the market in 1977 (compared with 2.8m. the previous year) and 9.9m. square feet projected for this year. It is difficult to see prices being sustained.

The stage has almost been reached where some developers are paying an amount for land which, even without building costs and interest payments, is

CONTINUED ON NEXT PAGE

Being heavily reliant on trade, Hong Kong has been particularly conscious of the impact of the world economic slowdown. Combined with protectionism among its trading partners, this is forcing the Colony towards wider commercial diversification.

Trade

HONG KONG IS an open economy and its dependence upon trade to provide growth is therefore considerable. The current slowdown in the growth of world trade, which has begun to influence the Colony's own trade performance in the latter part of 1977, is thus a matter of no little concern to Hong Kong.

Growing protectionism, particularly as it affects Hong Kong's textile exports, has compelled the Government to abandon its traditionally passive role on economic direction and an advisory committee on diversification of the economy has been set up under Government aegis.

The Colony's total exports rose by just under 8 per cent. last year to HK\$44.8bn., after a rise of almost 40 per cent. in what was admittedly the boom year of 1976. Even so, the trend was disquieting, particularly as imports rose 12.5 per cent. last year to HK\$48.7bn. and the merchandise trade deficit more than doubled to HK\$3.9bn. compared with the previous year.

The weakness in market demand and increased export competition from other developing countries were factors behind the slowdown in Hong Kong's exports last year, which was most marked in the closing months of the year. Early indications are that the slowdown has continued into this year.

The United States still claimed that the largest share of Hong Kong's domestic exports, and the U.S. emerged as one of the very few major buyers of Hong Kong-made goods with increased purchases in 1977. Sales to the U.S. totalled HK\$13.3bn., an increase of around one-fifth over 1976. Clothing is the biggest single item of Hong Kong's exports to the U.S.

Demand from the European Community for Hong Kong goods—where again textile imports figure largely in the overall offtake from Hong Kong—was relatively sluggish. The nine member countries of the EEC (notably West Germany and the U.K.) took Hong Kong goods to a value of HK\$8.9bn. or 4.4 per cent. less than in the previous year.

In other leading markets, such as Japan, Australia and Canada, Hong Kong was barely able to maintain the level of its 1976 exports. And again, in most cases, the sales decline could be attributed to the performance of clothing and textile products. Shipments of these two categories to all overseas markets combined was down by 4.5 per cent. last year, highlighting the particular difficulties encountered in these sectors.

Exports of toys, electronics and metal manufactures, on the other hand, all recorded fairly

good gains and helped, in part, to fill the gap left by the textile industry.

Growth in Hong Kong's re-exports, as well as domestic exports, slowed sharply last year as compared with 1976. Domestic exports grew by 7.4 per cent. last year to HK\$35bn.—they rose 42 per cent. in 1976—and re-exports were exactly 10 per cent. ahead last year, after a 28 per cent. rise in 1976.

The slower growth in re-exports last year was, as the Seng Bank observed in its lucid annual economic commentary on Hong Kong, mainly attributable to declines in shipments to the U.S. and Japan which together accounted for 22.6 per cent. of the Colony's export trade.

Outlets

On the other hand, re-exports to other major outlets, including Singapore, Indonesia and Taiwan continued to gain steadily. China remained the leading source of re-exports, accounting for a quarter of the total, followed by Japan (17.7 per cent.) and the U.S. (12.7 per cent.). The share of re-exports in total exports stood at 21.9 per cent., close to that recorded in 1976. No significant change was seen in the pattern of re-exports either.

Meanwhile, Japan and China maintained their dominant position as principal suppliers to Hong Kong. Imports from these two countries rose by 28.5 per cent. and 4.1 per cent. respectively.

In terms of products, the major growth in Hong Kong's imports were in consumer goods and capital goods. In the case of capital goods, it was transport and construction equipment that saw rapid growth, partly reflecting the ongoing task of building a mass rapid transit (underground railway) system linking Hong Kong Island with Kowloon. Imports of industrial machinery grew modestly—a rather pessimistic pointer for fixed manufacturing investment—and the growth in raw material imports was negligible.

Growth in consumer goods imports was influenced by the buoyant level of consumer spending in the first half of last year although this tended to tail off later in the year.

The weaker export performance, coupled with rising imports, led to a substantial deficit on Hong Kong's visible trade account, although the deficit was little bigger than that in 1976, again reflecting the fact that 1976 was an exceptionally good year.

Nevertheless, Hong Kong cannot shrug off lightly a deterioration in the external trade position such as that seen last year and which appears likely

to worsen this year. The Colony has one of the most externally dependent economies in the world with exports representing no less than around 80 per cent. of gross domestic product in money terms.

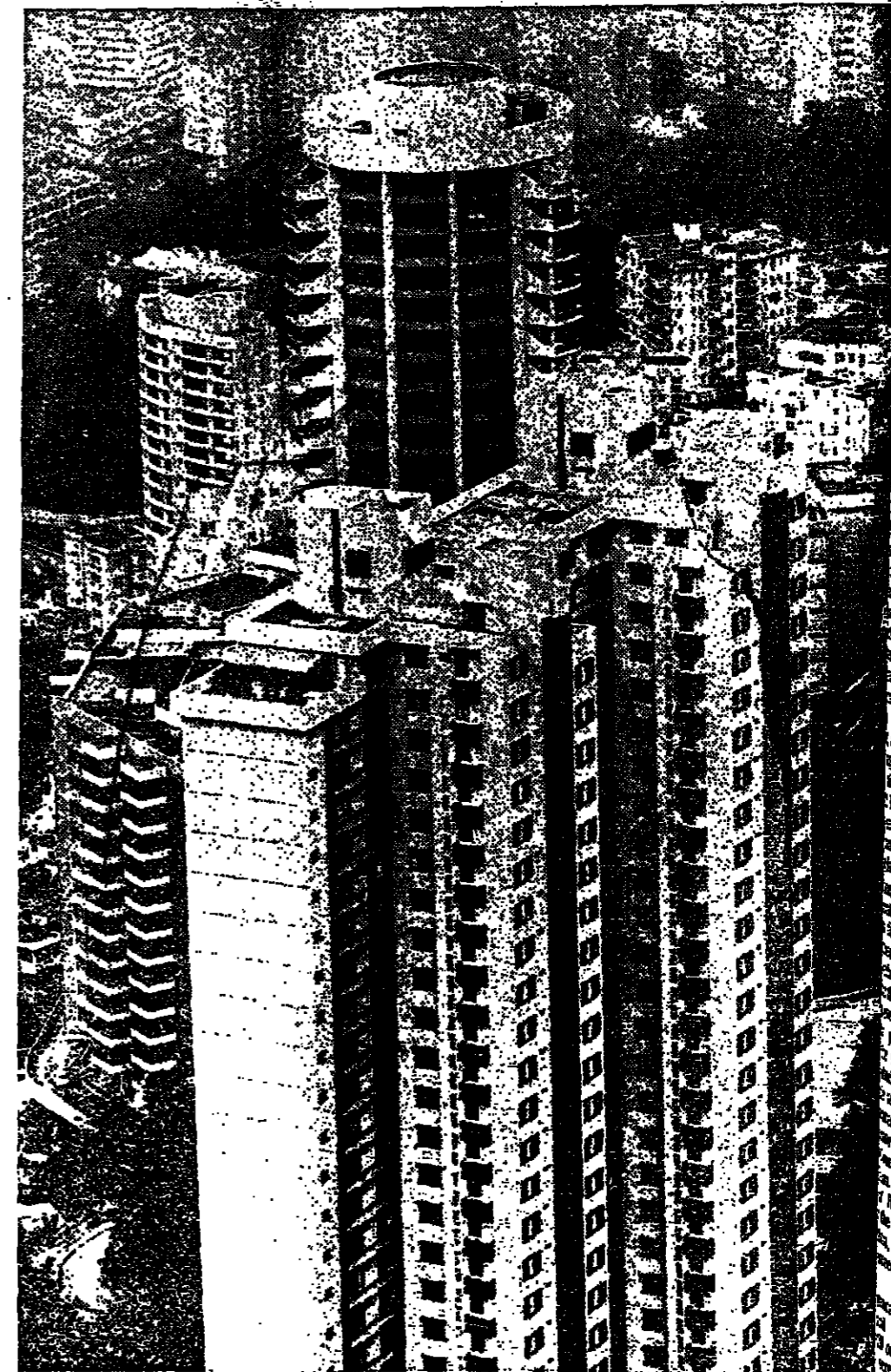
Commercial relations with Hong Kong's main export markets during 1977 were, to quote the Hang Seng Bank, "rather disappointing".

The Multi Fibre Arrangement (MFA) sponsored by the General Agreement on Tariffs and Trade (GATT) which was due to expire at the end of 1977 was extended for a further four years to provide guidelines for orderly world trade in textiles.

Before the old pact ran out, Hong Kong had already concluded new bilateral textile agreements with two of its major trading partners—the U.S. and the EEC. The terms offered by the EEC were rather less favourable than those offered by the U.S. under these agreements.

The roll back of limits on textile exports to the EEC could have damaging effects on Hong Kong's textile exports, although the under-utilisation of quotas in 1977 suggests that the damage might not be immediate. It is feared, however, that the EEC's action might set a precedent that could trigger protectionist moves among other major takers of Hong Kong's textiles. Hence the need for economic diversification as soon as possible.

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هكذا من الأهل

Hong Kong is one of the most densely populated areas in the world, and its housing policy has had to deal with this problem. Inevitably private accommodation is hard to find and expensive, while public sector housing is heavily overcrowded.

Housing

ONE OF the tourist attractions of Hong Kong is its vast housing estates—towering blocks stretching 30 floors up into the sky, and coping with one of the most densely populated communities in the world. And yet, although almost a half of the Colony's population of 4.5m. is now accommodated in public housing, this is still a relatively new development, which began just 24 years ago, almost by chance.

In 1953 a fire swept through an area of 100,000 people homeless. The Government stepped in and re-housed them in quickly erected seven-storey blocks, each with flats 120 square feet in area and designed to cater for five people. Somewhat to its surprise the Government found that people were prepared to pay, if only a modest \$HK10 a month, for their flats, and, prompted by other fires, it started to build identical blocks, mainly so that valuable land in the centre of the colony could be cleared for commercial redevelopment.

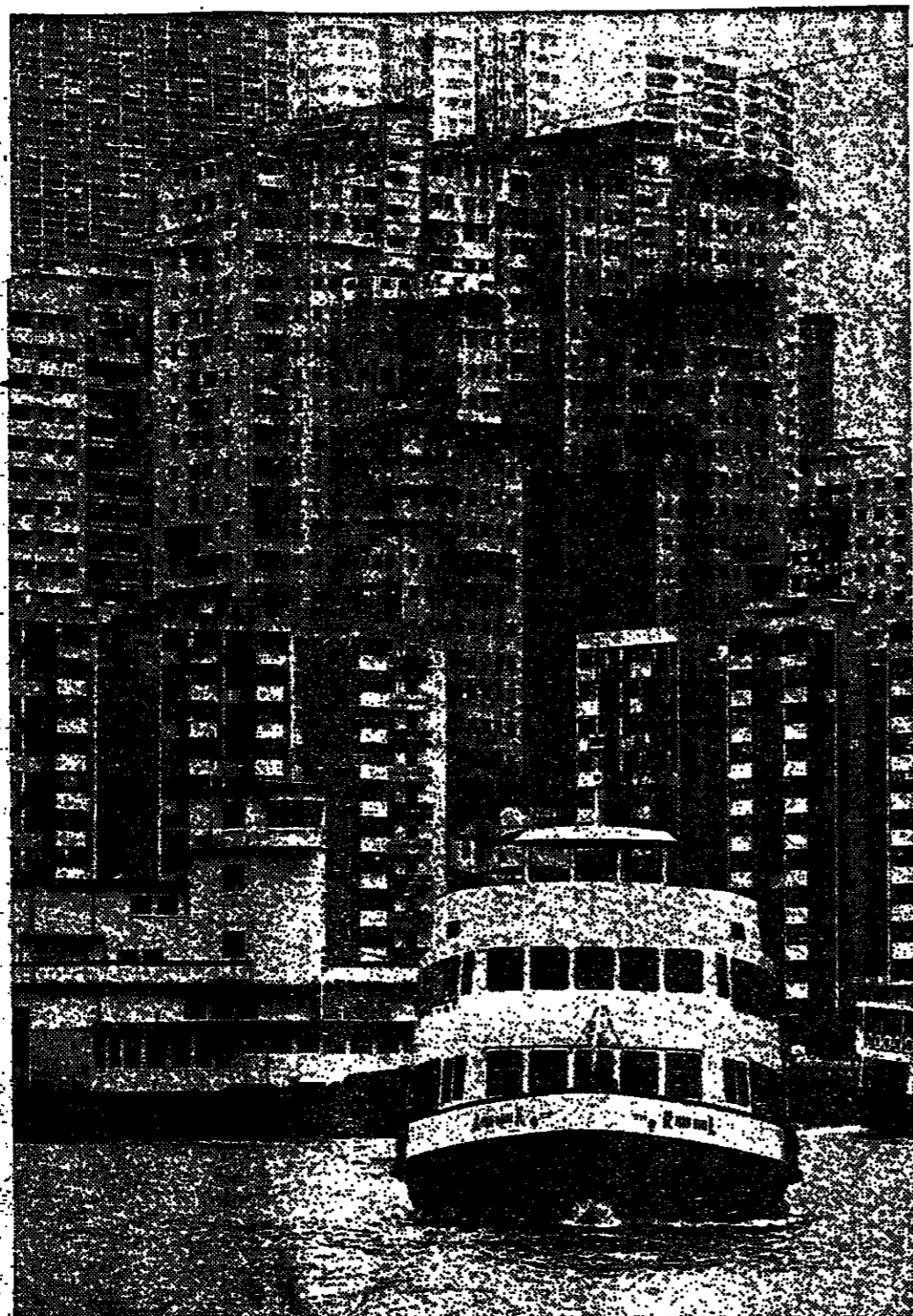
Identical

The Resettlement Department carried on for a decade building identical seven-storey blocks with the same space allocation for one-room flats with the basic facilities of re-settling squatters, but as the programme gathered pace the more established population of Hong Kong, attracted by the Government's housing, began to demand similar accommodation, and a Housing Authority was formed which constructed rather better flats—35 square feet per person, with internal lavatories and dining facilities in higher blocks. These flats were located according to a points system and a waiting list, and appealed not only to factory workers but the more affluent Chinese as well. After almost 20 years the two organisations were finally merged in 73.

Although the Resettlement Department gradually improved architectural standards, and 1966 was installing lifts in blocks which rose to 16 storeys as well as lavatories, it was still signed to get the maximum settlement at the minimum cost, and was prompted by the Government's need for land for housing. But in 1972 the Department accepted the Authority's standard of 35 square feet, and now there is a unified approach to public housing, although 500,000 people still live in the rough, already seven-storey blocks with their communal lavatories and washing facilities.

It says something for the housing conditions in the colony that the Government's ventures should have met such a favourable response from the non-squatters. Perhaps even more remarkable is that private housing has coped so long with a situation which grew by 2m. in the decade after 1945 when people poured across the border to escape the Civil War, the new Communist Government in China. To-day, the situation of Hong Kong is passing at the lowest rate in the East Asia, but even its birth rate exceeded deaths by 100.

Over the years expectations have risen and although the flat is still one room, with only some screening, higher standards are being introduced. The main aim is to make the flat more attractive by giving a sense of community. One old estate, at Shek Kip Mei, for example, four of the blocks have been demolished, the space will be used to



Apartment blocks tower above one another on Hong Kong island.

erect a new centre, with shops, restaurants, banks, etc. All the new estates are planned from the start as small towns with a wide array of shops, open air markets, cheap, and more luxurious, restaurants, schools, and all the facilities that the occupants need. Indeed for many of the women there must be few opportunities to leave the community, and the men will almost certainly work nearby since the plan is to allocate factories and industrial land close to the estates, which now number 64, the majority situated in Kowloon and the New Territories rather than on the island of Hong Kong.

Reclaimed

Comprehensive development will be most apparent in the three new towns arising largely on reclaimed land in the New Territories—Tsuen Wan, the first, which will have a population of 1m. by the mid-1980s; Sha Tin, with an ultimate potential of almost 500,000; and Tuen Mun, with the same number. These are designed to draw population away from the currently overcrowded areas of Kowloon, and will be quite self-sufficient with their own factories, commercial, educational, shopping and recreational facilities, even down to the gambling dens of which the Chinese are so fond. There will be transport links to Kowloon, but the Government hopes that daily travel will be kept to a minimum and that the towns will solve, at least in the short term, the Colony's overcrowding problem.

ing problem.

But the completed new towns lie in the future. Hong Kong currently faces the task of improving living standards on some of the older estates. It is helped by the fact that the size of family is declining so accommodation designed for seven people may now be lived in by four. The basic single room remains, and the emphasis is on brightening up the environment. On four estates flats are being demolished to make more space. The vastness of some of the estates—at Tsz Wan Shan there are 150,000 people divided into five groups of 30,000—can be frightening to a European but when community centres are introduced, and the lively Chinese stalls appear on the streets, the bleakness of the actual flats seems less important. And it is undeniably better than any available down market private accommodation.

Part of the improvement policy is to sell flats of a rather higher quality, with one or even two bedrooms, to more middle class tenants. Another feature is to encourage trading up from estate to estate by families: some of the oldest flats are now set apart for elderly single people, slowly becoming a feature of Chinese life as following the European lead, the extended family declines in importance.

But despite the vast construction programme there are still 100,000 families on the waiting list for a flat, and around 400,000 squatting families, mainly in the urban area. In addition there are 30,000 families living on boats which although scenic is no longer popular. Near Aberdeen, on Hong Kong island, there is an attractive estate built on cliffs overlooking the sea. From a distance it looks like another luxury development, but the residents here are re-housed fishing families from the junks, paying perhaps \$HK250 a month rent rather than expatriates living in flats for which their employers are prepared to pay \$HK10,000 a month.

Reconciled

Until recently public housing in Hong Kong was supposed to be self-financing: indeed it was supposed to give a 5 per cent return on the money invested by the Government after 40 years. Now the authorities are reconciled to the fact that the ambitious plans—a \$HK4,000m. investment over ten years to house a further 1.5m. people—can never be self-financing. Rents in the 355,000 flats in public ownership usually range between \$HK100 and \$HK300 a month and the minimum qualifying income for a flat has just been raised to \$HK2,850 a month. Squatters require no minimum income to qualify. In the future the Hong Kong Government will inevitably shoulder a bigger financial burden in housing an even higher percentage of its population. There is a public demand for the Government to become a landlord, even though it is at odds with the free-market philosophy that flourishes in the colony.

The biggest incentive to live on one of the estates is the alternative. Private accommodation is difficult to find and expensive. As in London landlords are trying to sell off their flats, but with repayment of loans expected over 10 to 12 years it puts a great financial strain on the middle classes. Even so flats are snapped up whenever they come on to the market. The expatriate community is largely protected from the general shortage of accommodation by the fact that companies usually foot the bill—but newcomers to the colony can wait many months in hotels while a decent flat at a reasonable price comes on to the market. At the top end flats in Hong Kong are among the most expensive in the world: as for houses there are only a few hundred in the colony. The Government might have come involved with housing by chance, but now its role is paramount and is certain to grow.

Daniel Nelson

Antony Thorncroft

A Vertical Setup...



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roperty

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just make a return. Mid-1977 through 1977 developers invested in industrial land in short supply and the market was weak, though not as weak as at present on the new product. Now the product has become cheaper, but the land price increased.

James Wu, chairman of Federation of Hongkong Estates, has questioned the interest of developers who bid prices to almost 1,000 a square foot, and he pointed out that this level has implications for Hong Kong's industrial competitive. In January Shiu Nam paid a record 10.6m. for a 566 square

metre site. Land prices at Government auctions have rocketed in the last three months. Earlier this year a 1,550 square metre site in Tsimshatsui East fetched \$HK80m. So much money has been made in property in recent years that people have cash in hand that they do not know how to employ and are happy to put it back into property knowing that the market will take care of it for them. This factor is reinforced by the preparedness of banks to lend and by the considerable inflow of money from elsewhere in Asia.

The involvement of deposit-taking companies in real estate development has been a worrying feature of recent

developments. This was underlined by Bill Mosley, executive director of the Hongkong and Shanghai Bank group, who warned that the trend "is reminiscent of the over-commitment of smaller banks in the same market during the early 1960s banking crisis"—a message which was underlined by Trevor Bedford, who advocated caution and controlled expansion. Total building loans by the banking system are now about \$HK1bn. a month, and some developers are engaging in the dangerous practice of buying land at high prices on the assumption that inflation will take care of their problems.

HONG KONG XIV

Light industry needs to diversify if Hong Kong is to maintain its high economic growth rate and low unemployment. But this cannot be achieved easily nor will it be an instant solution to problems in this sector.

Light industry



Assembling printed circuit boards for Ampex computers.

DIVERSIFICATION IS the latest panacea being prescribed to remedy Hong Kong's faltering industrial growth. But miracles transforming the economy from its heavy dependence on textiles to a diversified and robust entity capable of weathering the storms of protectionism and slow world trade growth simply cannot be performed overnight.

The much heralded virtues of diversification tend to carry away some of the Colony's more optimistic businessmen and leaders as might the properties of a new wonder drug; and in the end their exhortations and promises for this cure-all sound little better than the wild claims of a quack doctor peddling snake-water medicine.

Ever since the textile barons of Shanghai and Canton collected their machinery and workers ahead of the advancing communist army in 1949 and moved lock, stock and spindle from the mainland to the British enclave on China's southern tip, Hong Kong's industry has been diversifying. From the very basic processes of spinning cotton yarn, the textile industry has branched out

to embrace weaving and garment making, which now earns the bulk of textile income. Outside the textile trade diversification into new areas and more complex technology has also continued at a steady pace. Electronics, plastics, toys, watches and radios are just some of the products which now fill Hong Kong's order books.

What makes diversification most urgent to-day is Hong Kong's need to maintain its high economic growth rate and low unemployment when the industrialised world has lost faith in expanding global trade in the interests of all. Economic isolationism has raised its head and beggar-my-neighbour—or more usually, beggar-my-Third World dependent—policies are now part of every finance minister's box of tricks from Tokyo to Washington. The recipes vary little; raise trade barriers and cut demand are the basic policies. Those economies that live by the motto "export or die" must change tack or wither on the undernourished vine of international trade.

In the wake of Hong Kong's trials negotiating agreements restricting its textile exports

to major markets in Europe and North America, the Governor, Sir Murray Maclehoze, announced the establishment of a committee to examine diversification of the economy. Whatever conclusions this august body reaches, it cannot work miracles instantly. Some suggestion to co-ordinate the efforts of local manufacturers through an industrial development corporation dispensing advice and even assistance may be made, but the main difficulties have to be faced.

Risky

There are no easy answers; diversifying manufacturing industry by breaking into new fields is a risky, costly and time-consuming process. Development of a new product, still more a new industry, requires expertise, technology, labour-training, financing and all the other variables that make any business fraught with danger, let alone a new one. Perhaps the safest and most profitable form of diversification is the type that has gone on ever since the days of Hong Kong's industrial infancy—moving into related fields by

applying new skills and greater capital in a market that is not a total stranger. In this way Hong Kong came to make the peak of their popularity in quality clothes side-by-side with cotton yarn spinning, and the toy trade grew out of the long-established plastics industry. Each time more value is added to raw materials by using specialised machinery and more skilled labour, so Hong Kong's line. Now printer calculators industry moves up market and

keeps some distance between all around the world, whose economies of its cheap labour advanced ends with the buying neighbours in South Korea and of a made-in-Hong Kong product, which are rapidly duct.

Digital watches, whose space-age faces were such a craze on the wrists of Europe and North America for several years, are now selling for as little as one-fifth of their 1974 prices. However, these Light Emitting Diode (LED) watches have been replaced by the latest money-winner, Liquid Crystal Display (LCD) timepieces. Despite being three times as expensive as prototype LED's, the LCD's are more compact and lighter, attract more fashioning and hence price them in higher and more profitable market. Last year watch exports followed a 1976 rise of 90 per cent with a 40 per cent climb to \$HK2.9bn. and further healthy expansion is confidently forecast for 1978.

An equally rosy picture is painted for the Colony's third major export earner, toys and games. As the world's leading toy exporter since 1972, Hong Kong last year sold \$HK3.04bn. of toys for children all around the globe, and manufacturers this year expect to exceed their 1977 sales surge of 28 per cent. Television games have married expertise from both the electronics and the toy and plastics industries, and this kind of cross-fertilisation can be expected to continue—the type of product diversification that continues without the interference or advice of colonial committees.

By a Correspondent



Testing toy trains at Tyco.

Lantau is twice the size of the island of Hong Kong but has a population of only 20,000. Now, with space seriously limiting further expansion in the Colony, planners see Lantau as a possible answer to their problems.

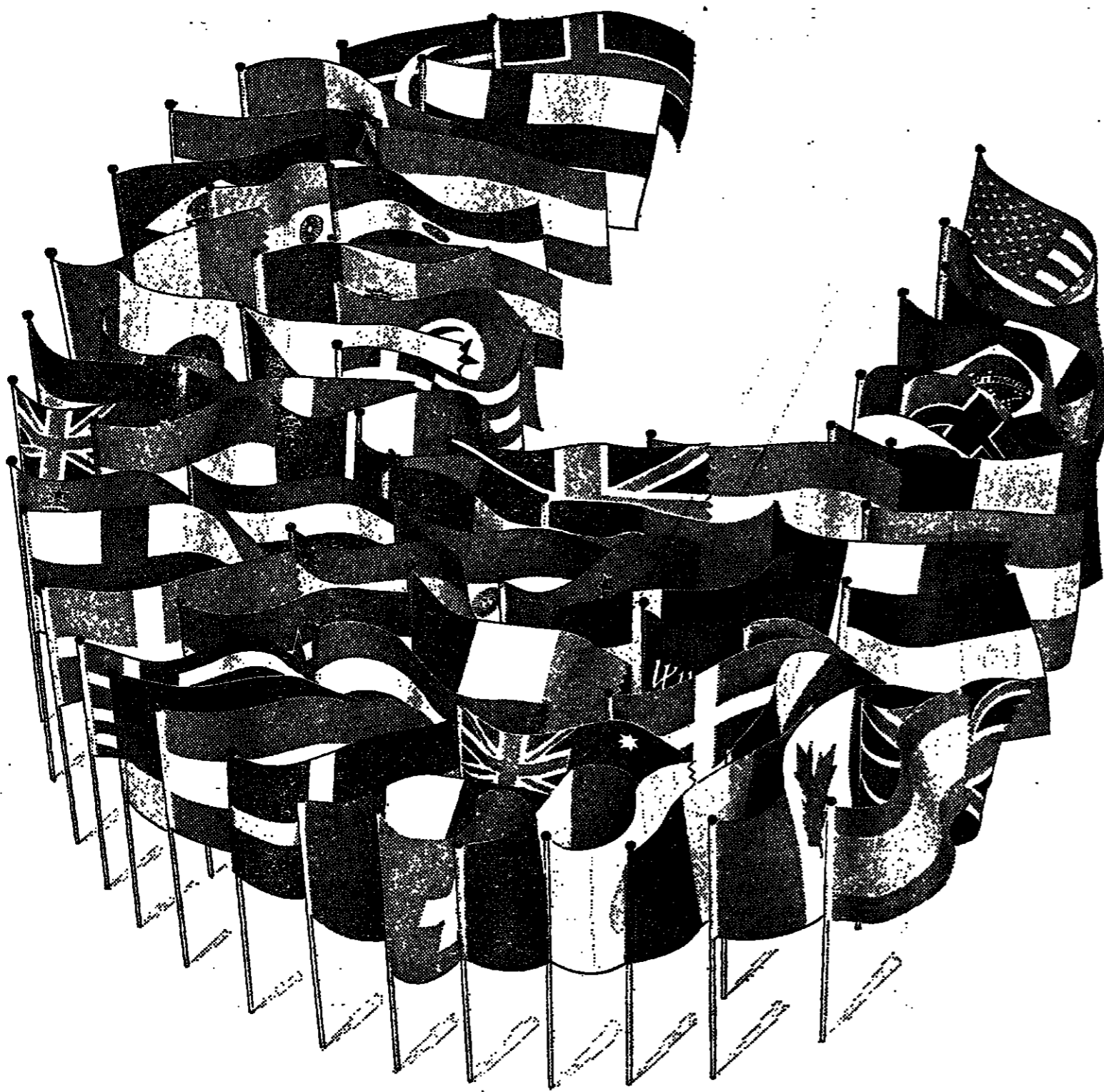
Lantau

AT THE end of the Second World War the population of the Colony of Hong Kong was just 600,000. By the end of 1977 it had grown to over 4.5m., and water on the island, Hong Kong, was still expanding by 3 per cent annually. So far it has coped with this extraordinary increase, but there are clear signs that the availability of land for further expansion is limited. For a time the New Territories on the mainland offered extra space and new towns are still emerging there. But Hong Kong planners are already thinking about the 1980s, and beyond, and that means they are once again looking seriously at Lantau.

Lantau is by far the largest island among the 200-odd, plus the mainland, which comprises the Colony. It is twice the size of Hong Kong island, but currently has a population of around 20,000 as against the 1m. plus that live on Hong

Government offering cheap land on Lantau to any private interests willing to finance it. Then, the end of the project determined by the local Chinese. Now, the Government has much more likely. By that time the New Territories will be transformed Lantau in the exhausted their land next ten years. A preliminary investigation is underway on a tunnel is the key to Lantau how Lantau could be linked to future. If it is built all the New Territories mainland plans for the island, and if, as seems quite possible, place, including the possibility of a bridge, is recommended of second airport, for stretching from the north of Hong Kong to be constructed in Lantau and linking two other north west of Lantau on islands before it reaches the reclaimed from the sea mainland close to Kowloon, the vast areas of the sea are Government could well approve than three fatigues deep what would be the most ambitious could be turned into a feature in the history of ground. The second airport, this very ambitious place, still very conceptual, but there was talk of such a seems certain is that

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HONG KONG XV

مكتبة الأمل

The fortunes of Macao and Hong Kong have become closely interlinked. While Macao's political survival is a vital factor to Hong Kong, the Colony's economic growth is important in sustaining Macao where prospects for the future are improving.

Macao

ON SOME of the latest Chinese maps, Macao's separate identity is less clearly emphasised than that of Hong Kong. Both colonial objectives are coloured the same as the surrounding section of Kwantung Province. Macao, on the western side of the Pearl River estuary, is labelled "Portuguese occupied," while Hong Kong is "British occupied." 40 miles to the east, whereas the 400 square miles of the British colony are outlined by a district border, the 6 square miles of Macao and its two adjacent islands, Taipa and Coloane, are not. The omission probably relates to its small size, but it could be symbolic, reflecting the political reality of diminished Portuguese authority. For all that, the continued use of the words "Portuguese occupied" has significance for both Peking and Hong Kong. Macao is historically Hong Kong's elder sister. Hong Kong and China have an economic interest in that history continuing for the time being, even if the Portuguese overseas empire is now otherwise ended. Hong Kong is economically Macao's elder brother. Macao has an interest in Hong Kong's economic dynamism, continuing to provide spin-offs, although belatedly it seeks more dynamism on its own account. Macao's history predates Hong Kong's by three centuries. It was first visited by the Portuguese in 1516 and first settled by them in 1557. Lisbon paid rent for Macao until 1849 and acquired a right of "perpetual occupation" by what the

Chinese, since 1949, have regarded as the unequal treaty of 1887. Macao was still a "province of Portugal" when in 1986 Chinese red guards forced attention to the fact that it was part of China. The Portuguese caved in before their assertiveness. Since the Portuguese revolution of 1974, Macao has become a "special territory," governed by its own organic statute. Lisbon and Peking agree that Macao is Chinese territory administered by Portugal. Belatedly the Colony's Governor has acquired cabinet rank in Lisbon. Currently the retiring Governor, Colonel Garcia Leandri, has become the first Governor of Macao to visit China since 1949. His ability to make a three-week tour suggests that, after numerous vicissitudes, Macao has established a new equilibrium. China and Hong Kong hope that it will be sustained.

Imagination

The Portuguese have too much imagination. The British are practical. It is how one influential member of Macao's (99 per cent) Chinese community sums up the differences between the two remaining colonial enclaves. He has a point. The Portuguese by succumbing to it, and the Chinese by not preventing it, both showed a lack of practicality when the cultural revolution spilled over into Macao in 1966. Subsequently, in Hong Kong, the British resisted the

erosion of the established authority, while the Chinese belatedly tried to prevent the stabilised authority from being eroded. Practical reasons subsequently saw Chou en-Lai exercising Chinese influence through unofficial representatives in Macao to allow the situation to be stabilised.

Then, it was instability in China threatening Macao's future. The more recent problem has been the question marks posed for Macao by instability in Portugal. Obviously there have been some personalities in Lisbon who had the ideological imagination to believe that Macao should return to China.

Equally, there were Chinese leaders in Peking with the political imagination to see that the time was not ripe for such largesse. Hong Kong was a major reason for such prudence. Macao is totally dependent on China for water, and heavily dependent for basic foodstuffs and other items. The first ten months of 1977 saw China running a favourable balance of trade of 223.1m. patacas (U.S.\$45.7m.). This kind of financial gain to the foreign exchange reserves of China is small compared with that which it gains from Hong Kong. Just as Hong Kong could hardly have prospered had the British caved in to the agitations of 1967, so the doubt remains—if Macao goes, will Hong Kong's prosperity be maintained. Short-term destabilisation in Hong Kong would be the likely result of any

Macao takeover. Restabilisation might be difficult. The more important point is that China does not want to put the issue to the test. So far, no post-revolution Portuguese government has insisted on ending the status quo. Pro-Russian elements in Portugal's politics have not been able to make the Colony a source of embarrassment to China.

The possibility that they might do so accounts for another Macao-Hong Kong difference. Consultation between the Chinese and Hong Kong authorities is partly facilitated through the Sino-Portuguese diplomatic relationship. Macao is not serviced by any Sino-Portuguese diplomatic relationship. Once it was Salazar's and Caetano's anti-Communism which spurned normalisation of ties. More recently, China was anxious to see where Portuguese politics were headed. Just as China would not want Macao used by pro-Russian elements for purposes China regarded as inimical, so Peking would not want to treat with a pro-Russian Government over the future of a colonial remnant. But the New China News Agency now has an office in Lisbon. It will be interesting to see if Governor Leandri receives any clear indications on normalisation moves while on his China trip. In part the trip itself suggests a Chinese "thank-you" since the Governor has done his best to prevent Portuguese politics from further muddying Macao waters.

In this effort Governor Leandri is undoubtedly assisted by several unofficial Chinese representatives whose advice and consent and implicit veto power is more influential than the partly elected Legislative Council, whose membership Leandri has considerably widened. Ironically, so far as is known, China has never asked for the appointment of an official representative in Macao, though it has done so in the past in relation to Hong Kong. In Macao, China exercises a great deal of indirect control already. The Chinese community is either pro-China or apathetic. Unlike Hong Kong there have been no pro-Taiwan factions in Macao since they were removed at the time of the cultural revolution. The irony is that China has in the past made the request in relation to Hong Kong. Were it granted instead of refused, it would, of course, reduce the Hong Kong Government's authority, much as the Macao Government was reduced by the Red Guards. The psychological impact of such an appointment would effectively erase that district border between Hong Kong and China as far as most Hong Kong Chinese were concerned. It would also contradict China's official line about Hong Kong being Chinese territory under British administration, since any

such representative would have to be accredited, on Chinese soil, to Her Majesty the Queen of England.

These subtleties may not have been fully realised when the request was made. They help explain why, since the request was turned aside, it has not been recently repeated.

Meanwhile, if Macao's political survival helps to sustain Hong Kong, the colony's economic growth helps to sustain Macao. The Hong Kong Government continues to help by promoting corruption, by repressing the Chinese instinct to gamble. Since off-course betting is an insufficient outlet, Chinese from Hong Kong continue to be the leading patrons (in both cash and numbers) of Macao's casinos, plus its greyhound racing and Jai Alai stadiums. The net invisible flow from gambling probably more than wipes out the heavy deficit Macao runs in its visible trade balance with Hong Kong—448.2m. patacas (\$US91.8m.) in the first ten months of 1977, 561m. patacas (\$US113m.) in 1976.

Not all the annual flow of roughly 2m. Chinese to Macao is to the gaming tables. The jetfoils, hydrofoils and ferries which ply between Hong Kong and Macao also carry many who take advantage of Macao's regular ferry and bus services to Kwantung Province. Many of the 250,000 Hong Kong Chinese who visited China during Chinese New Year 1977, proceeded through Macao.

Textiles

Macao's main industry—and around 90 per cent of its exports—is textiles. The industry is mainly an extension of Hong Kong's, but Macao is no longer a safe haven for foreign quota avoidance. Macao textile exports face European and U.S. restrictions too. Consequently, Macao is thought already to have reached the limits of its textile growth. Meanwhile, there is no lack of imaginative plans for development projects which will improve the economic prospects for Macao's 265,000 inhabitants. A horse-trotting stadium complex is being completed on Taipa Island to add to the gambling attractions. A feeder container terminal is being reclaimed and dredged on Coloane Island. Two substantial resort complexes, one on Coloane, the other on Taipa, are planned, to add to Macao's tourist attractions. A Portuguese company, Lisnave, is looking at building a ship repair yard. A new ferry terminal will facilitate the tourist flow, as will the purchase of three more Boeing jetfoils. The main hotel, the Lisboa, is doubling its capacity. Efforts to attract foreign investment centre on the hope of

attracting new industries to the reclaimed area around the container terminal.

Practical considerations may limit the promise of these and other schemes. Macao is linked to Taipa by bridge and Coloane is linked to Taipa by a causeway. But since these links were completed five years ago, the number of residents in the two islands has fallen from 10,000 to 3,000. Obviously those moving into overcrowded Macao must be thinking like foreign investors—the lack of infrastructure on the islands does not yet attract. Power and water are the most often cited difficulties. A new power station on Coloane and containing two 23,000 RW generators should improve the power problem, when it belatedly comes on stream, and help to relieve the currently overworked power station in Macao. Power station, container terminal, shipbuilding yard—all may be handicapped by Macao's environment of shallow and muddy waters, not to mention a somewhat lethargic administration and a sometimes conservative Chinese business establishment. Police reorganisation and reform would appear to be required to counter the law and order problem which, if unchecked, could constrain tourist growth.

By Hong Kong standards, the problems are not insuperable. In Macao, there is optimism that once some of the new projects come on stream, they will encourage multiplier effects, and Macao will achieve a more dynamic pattern of growth. The greater degree of autonomy that Macao now enjoys from Lisbon should expedite decision-making by the local government. A new long-term agreement for a higher percentage of gambling profits will provide more revenue. Given the dominance of pro-China business groups in Macao, the symbol of more direct Chinese investment in Macao (such as is taking place in Hong Kong) is unnecessary. Should reported discussions between Portuguese interests and China over the possibility of Macao refining Chinese crude oil produce tangible joint operation, it would be both a precedent and an additional fillip.

For the moment Macao's improving prospects are illustrated by the currency situation. In July a new central bank will replace the former Lisbon private bank (the now nationalised Banco Nacional Ultramarino) as the note issuing authority, searing the exchange rate more to local realities. The Pataca has recovered from its recent adverse position vis-a-vis the Hong Kong dollar. But the Hong Kong dollar is still used in 80 per cent of Macao business transactions.

Harvey Stockwin

It's remarkable how many major Hong Kong developments have one thing in common



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Lantau

CONTINUED FROM PREVIOUS PAGE

Lantau is joined to the rest of Hong Kong by a big industrial area will rise in the north of the island, with a residential development around it. The population will then leap ahead.

The Hong Kong Government has very definite plans for Lantau waiting on the present studies, which should take a few more months to complete. After the construction of the bridge and the industrial area, the remainder of the island will be left as a country park—a lung for the overcrowded colony. There will be some hotel and resort development, but the intention is to control it rigorously: the south coast of the island, which is wild and dramatic, will be kept free of hotels or any other buildings. Already the scenic attractions of Lantau and its peace compared with the turmoil of Hong Kong, have brought in the developers, but so far poor access has limited investment. Lantau can currently only be reached by a ferry, which takes just over an hour from Hong Kong.

One development which is independent of the ferry service is close to completion—a Sea Ranch on the south-east of the island. Access will be by a regular "water taxi" service with Hong Kong, or by private boat—it is in effect a "hotel," although the 152 apartments and 14 four-storey hotel blocks are available for sale, and half have already been bought. The \$60m. (about £8m.) project which includes a clubhouse, restaurants and bars, is owned by Hutchinson International, and should be completed by the end of this year.

But the Sea Ranch is not the biggest leisure investment in Lantau. To the north is Discovery Bay, one of the most expensive enterprises ever mounted in Hong Kong is taking shape. Covering around 20 acres the project is costed at \$2.5bn. or more (£300m.). Initially there were problems over the cash, but now a group of local Chinese businessmen, with a company called Hong Kong Resort, is planning the resort complex, consisting of 2,100 garden houses, 4,000 holiday flats and a 350-room hotel, which could be extended. Discovery Bay will have its own office, fire and ambulance ser-

vice, as well as three golf courses. The population, both permanent and holidaymakers, will top 20,000 and once again communication with Hong Kong will be by water taxi.

There is another hotel development, with holiday homes, at Cheung Sha, also on the south-east coast, and a village on the main road of the island which tends to hug the southern side. Most of the north of Lantau is inaccessible to motor traffic, and before the island can be greatly developed better communications are essential. The roads are currently being improved, as is the quay for the Hong Kong ferry at Silver Mine Bay. The few communities, mainly of fishing folk on Lantau, are due to have their very traditional and colourful villages modernised in the next few years, although, unlike on Hong Kong or Kowloon, the new homes planned will be low rise buildings, in line with the character of the place. The barren nature of the island, and the lack of water, means that Lantau will never have a large indigenous population, living off the land. In the next five years the population will grow largely through tourism; then, with the completion of the bridge, it will be mainly from industrial workers living in the north of Lantau.

Along with better roads and housing Lantau must solve its water problem. Ironically there is a reservoir on the island, at Shek Pik, but the water from it is piped to serve Hong Kong Island. Shek Pik could serve Lantau, or perhaps more probably, water will be brought in from the New Territories. One great advantage for the Hong Kong Government in its ambitions for Lantau is that it owns most of the land. There are 20 plots belonging to villagers, and these are increasingly being sold to build holiday and week-end homes for people from Hong Kong, but the aim is to develop Lantau very much in line with an overall plan, to restrict haphazard development and to limit recreational projects to the specified areas.

At the moment Lantau is still a dream-like place. Its beaches

are probably the best in the Colony; its villages quaint and unspoiled; its general character green and picturesque. The whole effect is like a Mediterranean island before the arrival of the package tourists. In the summer residents of Hong Kong flock over to enjoy the contrast, and there are more and more commuters prepared to travel up to three hours daily to enjoy rural peace. The Hong Kong Tourist Association is alive to the attractive dual appeal of bustling downtown Hong Kong, with its shops, restaurants and night life, and the empty beaches of Lantau. At the moment there is hardly a tourist bed on the island, apart from a few at the Buddhist monastery at Po Lin, but from now on development will be remorseless, if controlled. In the short term Lantau will be a holiday ground for the affluent of Hong Kong, but the charm of the island makes it quite possible that it will draw in international tourists. It is to be hoped that the inevitable and welcome re-discovery of Lantau will proceed at a leisurely and civilised pace.

Antony Thorncroft

British administration, since any

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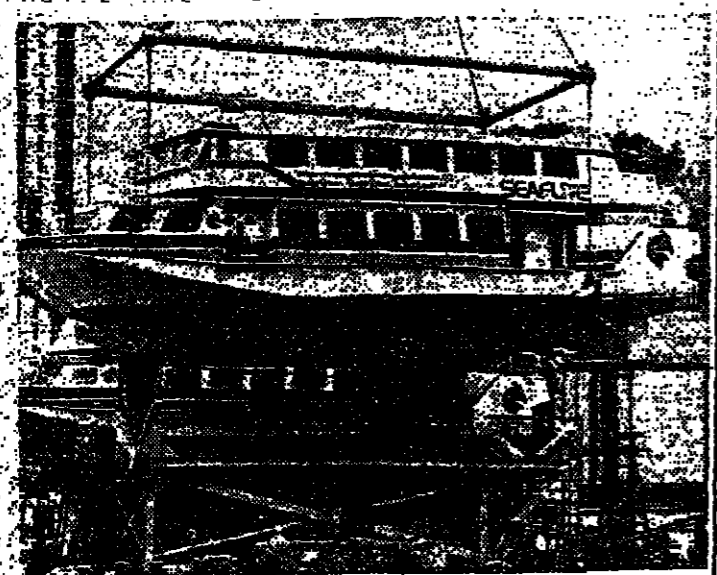
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HONG KONG XVI

Japan is an inevitable and important economic partner of Hong Kong, as it is of every other country in the region. And although the partnership is unbalanced it seems to be mutually profitable. Now, it appears that there are growing opportunities for Hong Kong to export its textiles to Japan, and the latter's role as a raw materials supplier may be declining.

Trade with Japan

HONG KONG has a chronic deficit in visible trade with Japan, but seems not to be worried by this fact. Japan has held its position as the Colony's number one supplier for the past five years without a break (although in 1975 it was nearly edged out by China).

As a customer for Hong Kong exports, however, it comes in a bad fourth, buying less than a half as much as the U.K. and only marginally more than Australia.

Western observers of the Far East, including no less a figure than the U.K. trade secretary Mr. Edmund Dell, have noted this situation and reached the conclusion that something should be done about it. In the U.K., in particular, it seems to have been felt that if Hong Kong made more effort to close its trade deficit with Japan its exports might press less heavily on Western markets. For the viewpoint of Hong Kong, however, the "impenetrability" of

the Japanese market (which tends to be philosophically accepted by Hong Kong exporters) certainly looms less large than recent problems with more traditional trading partners.

The reason why Hong Kong views its Japanese deficit differently from the way the EEC and the U.S. view theirs is simply that the role of foreign trade in Hong Kong's economy is also different. Trade accounts for an estimated 80 per cent of GNP so that imports, generally speaking, are linked to export production, or are intended for eventual re-export, rather than for the local market.

Hong Kong's imports from Japan include two major categories of goods directly related to the Colony's major export industries — textile fabrics and raw materials (for the garment industry) and electronic components. The third major item (motor cars) serves to supply a local need which is not met by Hong Kong domestic industry.

Hong Kong's exports to Japan are a rather different story. The Colony would like to develop its Japanese sales (and has attempted to promote exports through a branch of the Trade Development Council, established in Tokyo since 1971). Building up a Japanese market for manufactured goods however is acknowledged to be a long and costly process and Hong Kong manufacturers have less experience in this field than major export-oriented companies in the U.S. and Europe.

Familiar

The tendency accordingly has been to write off the Japanese market as requiring too much time and effort and to concentrate on the more familiar markets of Europe and America (which, in addition to other advantages, frequently send buyers to Hong Kong to place direct orders for garments or for plastic and electronics products).

Hong Kong's increasing difficulties in selling textiles to the EEC — intensified by the narrowing of quotas in the new five-year agreement — could clearly prompt a closer look at sales prospects in Japan. In the meantime, however, there are signs that Japan's dominance as a supplier of raw materials to the textiles and electronics industries may itself be growing weaker. The revaluation of the yen (by around 19 per cent against the Hong Kong dollar during the past year) has sharply raised the price of Japanese industrial materials in the Hong Kong market. Added to that, Hong Kong's electronics industry has begun to move away from pure assembly operations into the manufacture of its own components — and thus to a degree of independence from Japanese supplies.

Because of the dearer yen, major Japanese trading companies with Hong Kong subsidiaries such as Mitsui and Mitsubishi Corporation are

starting to switch procurement of some standard imported materials from Japan to cheaper sources of supply such as South Korea or Taiwan. In the long run this shift promises to reduce Japan's dominance as an exporter and produce a more diversified pattern of trade relations between Hong Kong and other countries in the region. The process will take time, however, and Japan's leading export role will certainly not disappear overnight. Aside from its traditional need for Japanese industrial materials Hong Kong has one other good reason to tolerate the continuing visible trade imbalance: its other economic relations with Japan almost certainly yield a handsome net profit. One of the most important of these is in tourism where Japanese citizens make up more than a quarter of annual net inflow of some 1.75m. visitors to the Colony. Another area where the Japanese connection can be presumed to be of considerable value to Hong Kong is in banking.

Only three Japanese banks have full branches in Hong Kong (Sanwa, Sumitomo and Bank of Tokyo) since these were the only ones to have established themselves in the Colony before a ban on the opening of foreign bank branches was imposed in 1965. Other Japanese banks however have "bought into" local Hong Kong banks (they include Mitsubishi and Fuiji) while a further group of banks have established "deposit taking companies" (quasi-banking institutions which are, so far not subject, to the controls on bank branches proper and which may accept deposits of HK\$50,000 or more).

Japanese banks originally established "deposit taking companies" in Hong Kong to finance ship purchase by Hong Kong owners who placed orders with Japanese yards and then chartered their ships back to Japanese lines. Later arrivals originally moved to Hong Kong to service the local requirements of head office clients in Tokyo.

This is still a major function of Japanese banks in Hong Kong but there have been some signs recently that things are starting to change. The relaxation of Japan's foreign exchange controls has made it easier for Japanese banks to make overseas loans

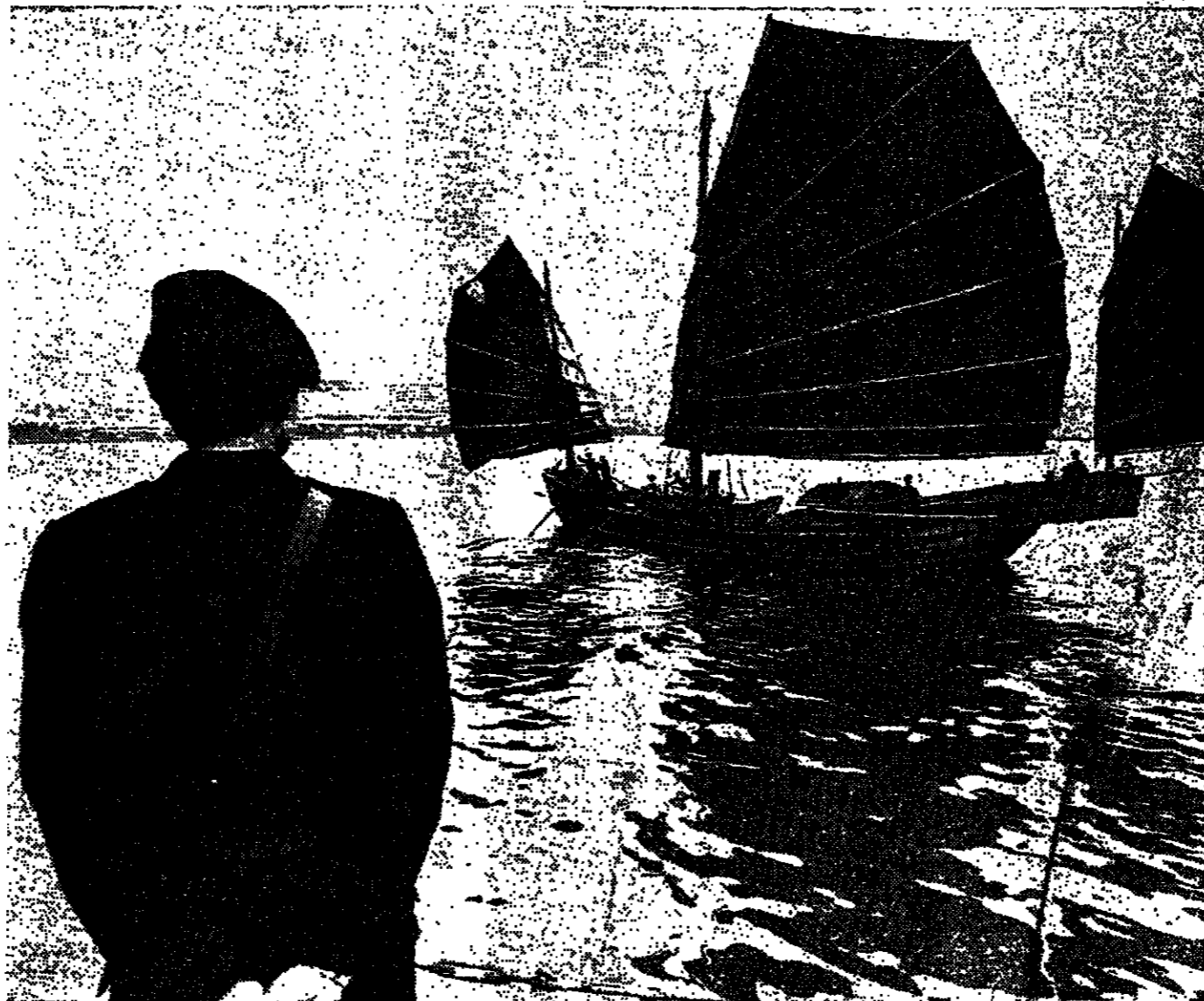
from Japan itself rather than to channel loans through overseas subsidiaries or branches. As a result the Hong Kong outposts of major Japanese banks have been obliged to go out and look for regional business.

The regionalisation of Japanese banking business in Hong Kong has its parallel in the activities of the big trading companies. These originally established Hong Kong branches to deal with two-way trade between Japan and Hong Kong. In the past two years, however, the trading companies have begun to use Hong Kong as a base from which to arrange financing of trade between Japan and the rest of South East Asia. Mitsui and Co. which converted its Hong Kong branch into a subsidiary two years ago, says Hong Kong is now its third most important overseas base for trade financing after New York and London.

Third

Hong Kong ranks third behind London and New York as another important respect — a source of non-resident investment in Japanese securities. The Colony serves as an overseas centre for European and U.S. investment funds as well as for European-owned and managed, but Hong Kong-based, institutions. In addition, local Chinese businessmen are major investors in Japanese securities. This flow of funds explains why eight Japanese securities companies are now represented in Hong Kong through local subsidiaries or joint ventures.

Japanese direct investment in Hong Kong industry appears to be the least important strand in the relationship at present and is probably much less significant than Japanese investment in Singapore. Most existing investment is in light industry ("hit and run" investment — the expression of the international bureau chief of one of Japan's major trade union federations). Hong Kong has, seemingly, made no particular attempt so far to attract Japanese investment in heavier or more slowly yielding sectors. If it ever did so, Japanese business world might have to take a closer look at it. It seems willing to do at present at the Colony's long-term survival prospects.



A Chinese sailing junk passes a Royal Hong Kong Police patrol.

Efforts to clean up Hong Kong's police force have focused attention both on its key role and its shortcomings. Corruption within the force has certainly been reduced, although there are still a number of loose ends to be tidied up.

The police

HONG KONG residents, most of whom had become very cynical about official declarations against corruption, were recently shown that the Government's intention to clean up the police force had not wavered. In a clean sweep, 118 policemen, all Chinese, were retired under Colonial Regulation 55, which requires no reason to be given.

CR55, as this was called, is a rarely used clause which, when the Foreign and Commonwealth Office in London dusted it down, was seen to be a "secret" weapon against the bogey of insufficient evidence to prosecute known corrupt elements. Any civil servant who has been asked to leave Government service in this way can expect great difficulty in finding another job in Hong Kong.

A Government source acknowledged that he did not see CR55 being applied again because it was unlikely that a corruption syndicate of this magnitude (referring to one in a district of Kowloon involving more than 100 policemen) would be in existence after this.

On the same morning (April 7) that the 118 policemen and one customs inspector were informed of their immediate retirement, on full pension and

with six months grace to re-main in their quarters, another 24, four of whom have since left the force, and two customs inspectors were summoned to appear in court on conspiracy charges. Another 39 were told that no action would be taken against them.

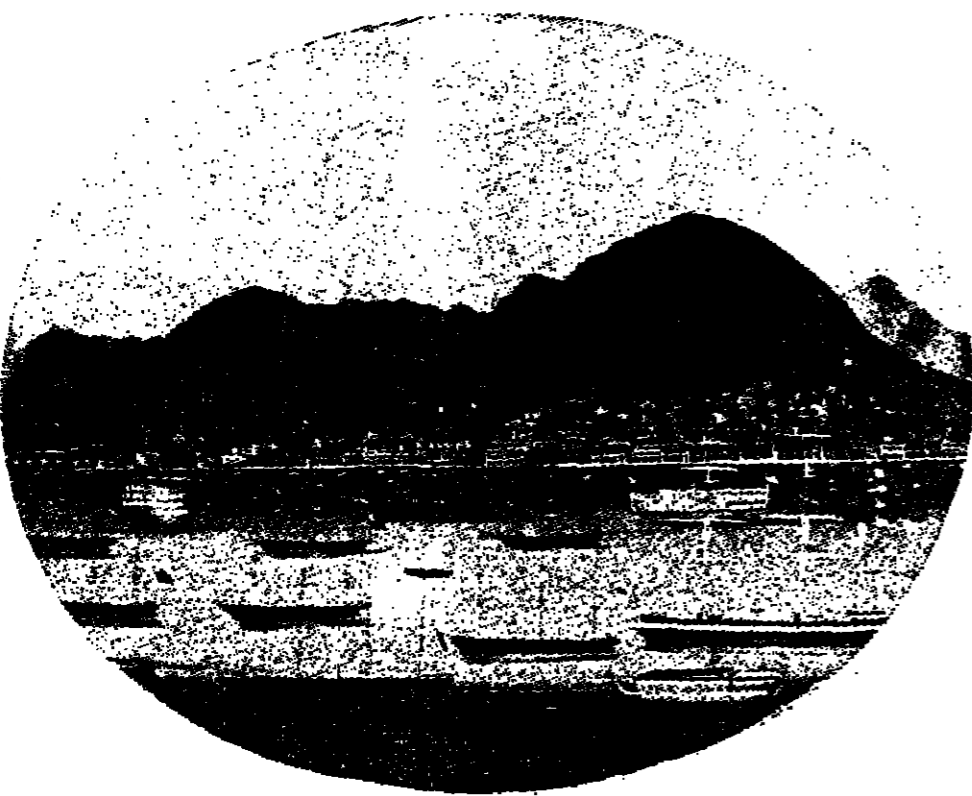
None of the 184 were covered by last November's amnesty, which only applied to those who had not yet been interviewed by the Independent Commission Against Corruption (ICAC) or charged or whose corrupt practices had taken place before 1977. This "drastic action," which has been welcomed by most people in Hong Kong, including officials of the Junior Police Officers Association (JPOA), effectively clears the backlog of corruption cases which had not been destroyed by the controversial partial amnesty. The much-criticised amnesty was declared soon after a notorious group of off-duty policemen attacked the ICAC offices last October.

CR55 was a necessary step to boost police morale, a Government source said. Morale had been flagging as a result of continued ICAC investigations into an alleged syndicate which had been collecting bribes from the drug racketeers operating in the Kowloon district of Yau-mati. More than 100 police officers were suspended from duty for more than a year while they were being investigated. Although these men were still drawing their salaries — many took on jobs as taxi drivers and salesmen — four of them apparently cracked under the strain and attempted suicide, two rather dramatically in public. It was felt that the Attorney General had insufficient evidence to prosecute, but the suicide attempts stirred the rest to press the Attorney General to charge them or clear them.

This time, however, a crisis reminiscent of the October attack was averted when officials of the JPOA rushed to police headquarters, where some 60 of those interdicted had already assembled, angrily demanding a meeting with their Commissioner, Mr. Brian Slevin. The JPOA representatives successfully pleaded for calm and reason, and were able to meet the acting deputy commissioner instead. That same evening, the Commissioner issued a stern reminder that he had the power to sack any officer who had taken part in an unlawful assembly.

That warning was enough to

CONTINUED ON NEXT PAGE



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A continuing attack is being made on Hong Kong's drug problem, and the Colony's record in this respect is outstanding compared with most countries. But Hong Kong's success is likely to be limited unless the source countries reduce the supply of drugs passing through the Colony.

The drug problem

HONG KONG Government officials are containing its drug problem, and certainly a new anti-narcotics campaign since the advent of the present Governor in the early 1970s. The creation of a Commissioner for Narcotics to co-ordinate the drug, draconian new anti-narcotics measures, injections of Special Branch officers into the police-Narcotics Bureau, some impressive arrests and seizures, an out-patient programme, and improved anti-drug publicity have all helped to curb the old drug hegemony within the territory.

According to the Narcotics Commissioner, Mr. E. L. Lee, Government expenditure on all aspects of the drug problem has increased from \$840m. (about \$4.6m.) in 1975, to a current annual \$840m. (\$8.9m.). Even so, expenditure on drugs at street level is still, he says, a disturbing \$840m. (\$8.9m.).

annually, serving a very national 60,000-60,000 addicts, mostly on heroin. This sum he equates roughly with the territory's current annual expenditure on its police force and prisons.

Hong Kong's heroin-like most of Europe's, Canada's and Australia's—originates in the so-called Golden Triangle at the juncture of the Burma-Laos-Thailand borders. (With a nod and a wink some Hong Kong officials call it the "Golden Square") to include the extension of the hill tribes and their poppies across the border into Yunnan Province in South-West China. Until quite recently most of Hong Kong's supply of illicit narcotics arrived by Thai fishing trawler as huge consignments of opium and morphine for manufacture into heroin locally. The official view is that since the 1974 arrests and convictions of several major dealers in Hong Kong, with resulting long prison sentences, consignments are smaller, and enter mostly as heroin either on couriers or imaginatively concealed in legitimate cargoes by air and by ocean-going vessels. It appears that the big operators have been replaced by their lieutenants and other smaller operators moving in and out of the trade on an ad-hoc basis. In 1975 the unlicensed possession of acetylating substances—mainly acetic anhydride essen-

tial to heroin manufacture—became illegal in Hong Kong and legislation provided for maximum sentences of 15 years and a fine of \$10m. (\$115,540). Hong Kong officials say this brisk raising of the ante, combined with arrests and break-up of the biggest syndicates just mentioned, persuaded Hong Kong heroin "chemists" to move to Thailand, and perhaps Malaysia.

For the same reasons, they assert, Hong Kong has to an extent lost its role as a distribution centre in the international drug market. The claim by Mr. Lee that "to all intents and purposes the export of drugs from Hong Kong has stopped" from Hong Kong's erstwhile markets. Some years ago Hong Kong was considered an important manufacturing centre for heroin reaching Canada from the Golden Triangle—still estimated as the source of 85 per cent. of the heroin arriving in Canada. In the past year, however, Canadian officials report no known case of imports direct from Hong Kong. The official consensus is it is cheaper and safer for couriers to take delivery of the heroin nearer the new manufacturing centres in Thailand or Malaysia.

Efficient

Hong Kong, with its efficient communications system, minimal exchange controls, and entrepreneurial talents in regular contact with large overseas Chinese communities—through the restaurant trade, for example—is generally assumed to have continuing importance as a financing and organising centre and as a recruiting point for couriers.

In short, the drug traffic to and through Hong Kong, though far from checked, is now under much greater pressure. Chief Superintendent Johnston, head of the Narcotics Bureau, says there is greater concentration on significant targets (distributors, factories, etc.), less on boosting arrest figures and seizures by picking up addicts. 14 heroin factories were uncovered in 1976, compared with three in 1975, and the number of addicts in Hong Kong prisons has fallen sharply from 90 to 50 per cent. of the total prison

population. Heroin prices have shown a significant rise overall in the period. The average addict now spends \$50-\$100 (\$2.87) a day on drugs, according to case workers. And the heroin itself is often greatly adulterated with other substances. Retail points, once reasonably static and easily located, are now constantly moving, and the increased security consciousness of retailers has enabled addicts in the know to become small time peddlers. Bribery exists but is much diminished: since its institution in 1974, Hong Kong's controversially powerful Anti-Corruption Commission has made syndicated police corruption one of its main targets.

This official view of the current Hong Kong trafficking scene is broadly corroborated by feedback from addicts to their case workers. The impression one gets is that compared with law enforcement efforts, progress on the rehabilitation side is less remarkable. Admittedly, residential treatment facilities in voluntary and custodial institutions have been slightly expanded, and since 1972 a score of out-patient clinics for methadone maintenance and detoxification have been opened, to coincide with police action and the rise in heroin prices. In narcotics, as in other spheres, Hong Kong is nothing if not flexible, and the Government is currently sanctioning an experimental study of treatment of addicts with Naloxone and acupuncture. But the fact is the total addicted population is still officially guessed to be, in the words of the Commissioner, "nearer 50,000 than 100,000." And of these only 14,000-15,000 (according to him) are being reached by care (that is, treatment or

follow-up) of one kind or another.

This may seem strange in a society which has just produced a budget surplus of \$2K1bn. (\$115.5m.). However, even the existing residential treatment centre for some 500 voluntary male addicts run by the Society for the Aged and Rehabilitation of Drug Addicts (SARDA) is seldom entirely full to capacity.

One reason for this seems to be that heroin in Hong Kong is still sufficiently cheap for many addicts to support their addiction, without recourse to crime, on legitimate earnings. In a full employment situation many are thought to achieve this for quite long periods. Caseworkers agree, for example, that the "typical" Hong Kong addict—and according to the Government this means "adult male over 21, lower income group, with limited primary education, unskilled or semi-skilled labour living in squalid accommodation"—in the present construction boom might be earning quite reasonable money. However, just over half (52.2 per cent.) of the 10,000 admissions to the Hong Kong prisons system in 1977 were found on admission to be addicted.

SARDA is an independent agency financed by a Government subvention of \$2K3.75m. (\$12.2m.). Besides the Society's 500 or so places for male clients, and the several Drug Addiction Treatment Centres run by the Prisons Department bring residential treatment places to a rough total of 2200 for men and the very small number of female addicts. All these centres are in pleasant settings in the countryside or on offshore islands: all use alternative drugs in the physical withdrawal process (methadone, largactil,

etc.): all are work and self-respect oriented in the treatment period—20 weeks at SARDA and a flexible 6-18 months in the prison centres. Both systems claim a success rate (that is, no positive urine test or reconviction for those who complete the treatment period) of about 40 per cent. for the two or three years follow-up of the immediate post-discharge period. Both systems in their ways select most promising cases for treatment, but this figure is impressive compared with most countries.

Modest

These modest residential services were supplemented in the mid-1970s by a Government-run methadone maintenance and detoxification programme for outpatients. Since 1972 some 20,000 people have been "detoxed" (withdrawn from heroin) according to a Government spokesman. At the end of March daily attendance was only about 5,000, leaving the balance of about 15,000 "unaccounted for," as he put it. "Medically it is not a success but socially and economically it is," he stated.

The case for the methadone programme is its cheapness, that it offers addicts an alternative to crime (free if necessary) and that it deprives the illicit trade even now of 5000 customers. Critics—who warmly welcome it in principle—say it misfires for lack of supportive counselling, that many addicts seeking detoxification switch to maintenance and that lax supervision in clinics is allowing methadone (itself addictive) on to the illegal market in worry-provoking quantities.

Government officials do not deny that they see the methadone programme leading to a phasing out of the more expensive residential treatment centres. But on present performance this would mean opting for a holding operation and the provision of an alternative cheaper addiction with all its inherent dangers, and virtually abandoning any serious attempts to cure addicts.

Internally, the dimensions and patterns of Hong Kong's total addict problem remain blurred. Officials are hopeful that a new computer system will later this year provide regular data and a sharper picture. The Government is trying to do a good job. In the face of a massive and firmly established supply-and-demand situation between Thailand and Hong Kong, its performance is outstanding compared with most governments. Intra-regional and international co-operation are said to be better (through ASEAN, the UN, etc.) but Hong Kong's demands for illicit drugs will be met as long as no significant reforms are achieved in source countries.

Patricia Penn

Police

CONTINUED FROM PREVIOUS PAGE

defuse the built-up hostility in the Yau-ma-tei group. CR55 has thus enabled the Government to act decisively to end "constant rumour and discontent" fed by a small group of men under suspicion. It was seen in official circles as being "in the public interest... to deal with these pending cases without further delay."

The Attorney General's office, which recently suffered a defeat in the five-month long court battle against ten officers who were cleared on corruption charges, will not be pursuing a case against the 119 because of insufficient evidence. It would have taken up to four years, a Government source said, to bring charges against them. None of the 119 have been named and the Government will not specify how many were from the Yau-ma-tei group.

The force's tarnished image was first highlighted when the former chief superintendent, Mr. Peter Godber, fled the colony in 1973 to escape corruption charges. The Governor, Sir Murray MacLehose, then set up the ICAC to clean up the force. The man who has been wielding this broom, Mr. Jack Cater, had given himself until 1978 to break the hold of corrupt policemen in the force. Mr. Cater's target date was abandoned along with the hundreds of files which had to be destroyed because of the amnesty.

The ICAC has investigated nearly 5,000 complaints against policemen, out of which more than 200 cases have been brought to court. More than half have led to convictions. ICAC sources say that although there was a sharp drop in complaints in the two months following the amnesty, this has now "levelled off," indicating a slight return in public confidence.

Another test of the ICAC's investigative process is taking place in the biggest corruption trial so far—against 34 police officers, one of whom was recently decorated with the Colonial Police Medal by the Governor. This trial which is scheduled to last five months.

One positive result of last October-November's confusion has been the consolidation of the rank and file after the amnesty whistle called off the ICAC. The 16,000 junior police officers were given permission to form their own association, the JPOA, ostensibly to look after the welfare of their members. Critics claim that the JPOA is a legalised pressure group for bent policemen, a claim which the association hotly denies.

In an attempt to win public support, the JPOA has been seen to be taking an interest in the welfare of the poor and homeless by handing out blankets during one very wet and cold January week. The need for the rank and file to have a collective voice with which to communicate with the largely expatriate (British) senior officers became evident when the depth of feeling which boiled over in October surprised the commanders. Fears that the JPOA could turn into a police force within a police force have not been realised.

But already there is talk about there being order but no law in Hong Kong. Corruption, they say, has gone underground and bent policemen are no longer open to bribery because they are running gambling dens and other illegal operations themselves.

The curious case of a detective sergeant shot dead in an illegal gambling den in late March has left many questions unanswered. He was given a hero's funeral, which was attended by the police Commissioner. Spokesmen say the sergeant was trying to prevent a robbery, and although he was off-duty at the time (3.30 a.m.) when he drew his gun to prevent the crime, he had effectively put himself back on duty. The fact that five men are now accused of being "cop killers" may, it is suggested, shroud the reason for the sergeant's presence in the den in the first place.

Cancer

One observer of the force compared corruption within the force with a cancer: while it was possible to isolate and perhaps even remove the malignancy, it was near to impossible to try and cure it when corruption had spread so widely throughout the body of the force. This source said it was not the ICAC's job to act as surgeon or physician, but that role should be the responsibility of those who controlled the organisation.

The task of looking into the organisation of the RHKP was given in mid-January to three special police advisers from Britain. Led by Jim Crane, inspector of the Constabulary for Wales and South-West England, who had headed the investigation into the Poulson and Stonehouse cases, their brief was to advise the Commissioner on discipline, staff management and morale, chain of command and channels of communication at all levels, as well as recruitment and relations with the ICAC.

The advisory capacity of this British team was constantly emphasised, so much so that some observers felt they were merely invited out to rubber stamp the Governor's rumoured intention to bring in more expatriate officers and institute other changes with the \$2K638m. allocated to the police in this financial year. Sources close to the team, which wound up its inquiry on April 17, say that many changes were already in the pipeline (like the reorganisation of the public relations department and the execution of CR55) when the three advisers arrived—which lends weight to the rubber stamp theory.

Although there is much confidence that corruption has been "enormously reduced" in the RHKP, there are still many loose ends left hanging, and the extension of the Governor's term for another ten months has been largely welcomed by the community. As a source close to the Governor explained, he would not want to leave with the events of November ringing in his ears. With CR55, however, Sir Murray has probably wiped out some of the jeers which greeted his "capitulation" in November.

Mary Lee

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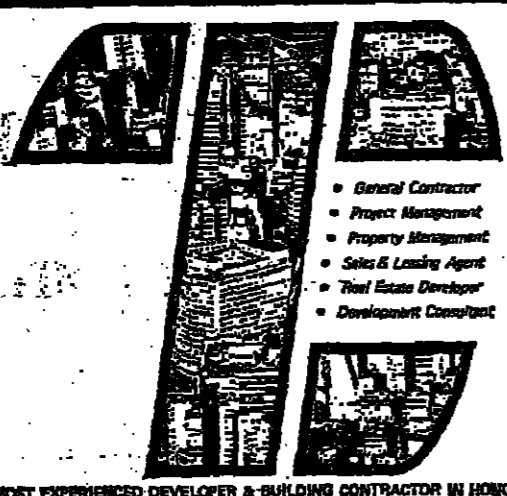
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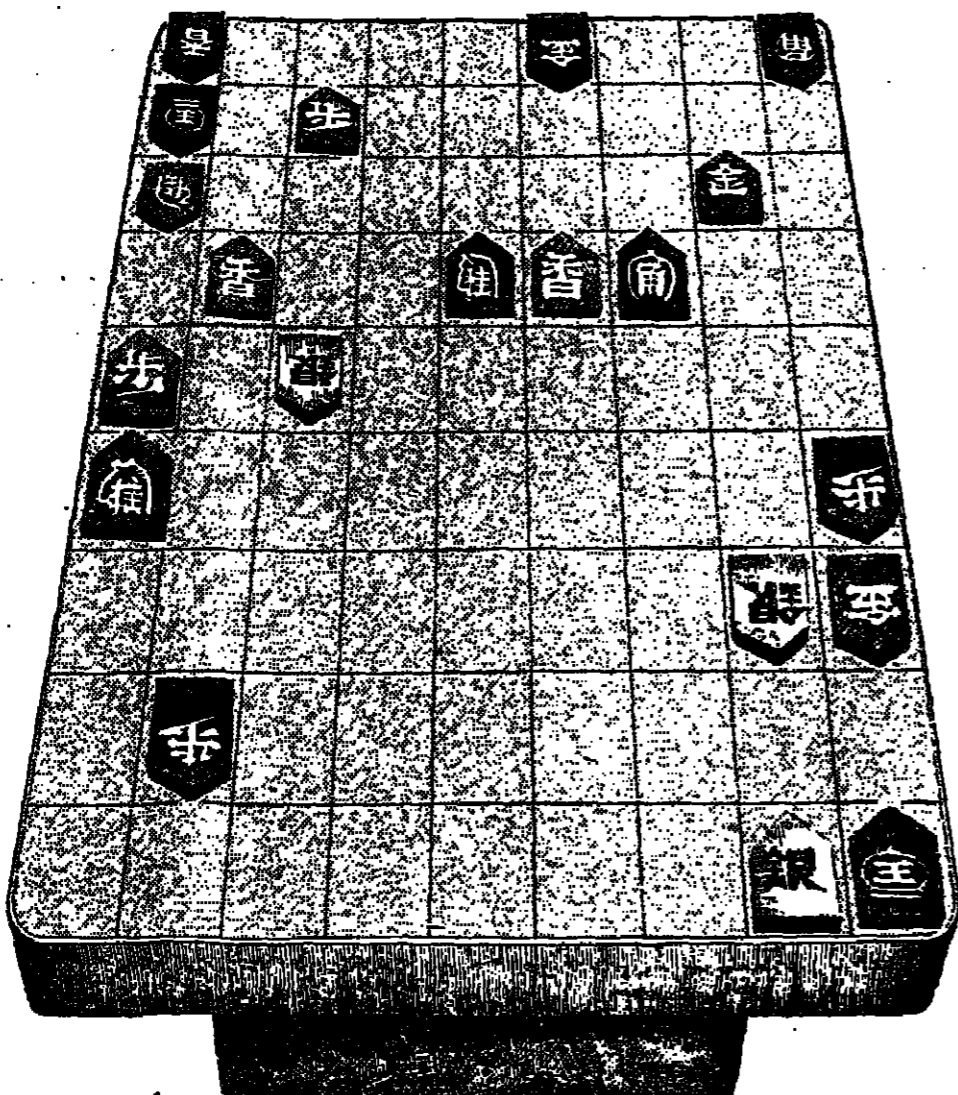
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HONG KONG XVIII

On this page and opposite, CHARLES SMITH profiles several of Hong Kong's leading businessmen and industrialists: how they have reached their present positions, the companies within which they operate and their views about Hong Kong's industrial and business prospects.

Some leading businessmen

Fung King Hey



Fung King Hey.

WHETHER OR not Mr. Fung King Hey is one of the wealthiest men in Hong Kong he certainly acts as if he is. The headquarters of his Sun Hung Kai Securities company on the 33rd floor of Alexandra House in central Hong Kong are more lavish than those of Jardine, Matheson and Company on the 48th floor of the Connaught Centre. Mr. Fung keeps a Rolls-Royce, a Maserati and a Lincoln Continental parked outside his house on the Peak and spends weekends cruising in a \$1.5m. yacht.

Conspicuous spending is logical enough in Mr. Fung's case, however, since his business is finance—not any particular kind of finance but anything that comes along. Fung made his first million dollars as a trader in the 1940s, lost it after the Communist takeover of China and then made more millions in Hong Kong property during the 1960s. He shot into prominence after 1969 when the long established Hong Kong Stock Exchange lost its monopoly of the Colony's share transactions and Sun Hung Kai became almost overnight the main securities broker on the newly created Far East Stock Exchange. Fung says his firm was doing 20 per cent. of all Hong Kong share transactions six months after the new exchange was opened and was at one time earning \$HK1m. every eight weeks in share brokerage fees.

Sun Hung Kai's share broking business flagged after the 1973 stock market crash, although the company has kept its dominant stake in the market. What did not flag was Mr. Fung's enthusiasm for financial wheeling and dealing and his talent for spotting new types of business. To-day brokerage fees have shrunk to less than 30 per cent. of Sun Hung Kai's earnings (from 80 per cent. at the height of the boom) while other kinds of finance account for 60 per cent. to 70 per cent. turnover. Gold and foreign exchange arbitrage between the Hong Kong and Western markets has overtaken share brokerage as a source of earnings.

Sun Hung Kai also claims to have passed several of Hong Kong's smaller banks as a deposit taker though admits to having a long way to go to catch with merchant banking giants like Wardley and Co. (the subsidiary of the Hong Kong and Shanghai Bank).

In commodities Sun Hung Kai deals on the local Hong Kong market and, through an American partner, ACLI International, in overseas markets. It has ambitions to get involved in equity investment in Japan but

dissolved a joint venture with New Japan Securities Company in favour of going it alone. Mr. Fung also claims satisfactory commodity business with China, though the only visible evidence of this is a gift of tropical fish in the tank in his office from "my Chinese friends."

Mr. Fung has got where he is without speaking, or at least admitting to be able to speak any English. He claims to understand only 10 to 20 per cent. of an English business conversation and conducts his side of the discussion entirely in Mandarin and Cantonese. This disability kept Mr. Fung off the Hong Kong Stock Exchange in the 1960s (because all dealings were in English) but may have been an asset when the Far East Stock Exchange was opened by Chinese bankers. Ordinary Chinese investors seem to have flocked to Sun Hung Kai during the early days of the new exchange (which now exceeds the Hong Kong Stock Exchange in turnover).

Mr. Fung says he is a strong advocate of merging Hong Kong's four exchanges into one. If and when merger does occur Mr. Fung will presumably want the new exchange to do its business in Chinese.

Mr. Fung says modestly that Sun Hung Kai does "a quarter of everything" in finance and, less modestly, that he is not quite sure which new worlds to conquer. The worlds he would like to conquer are presumably those outside Hong Kong—in other words Sun Hung Kai would like to make a name for itself in the major financial centres of London, New York and Tokyo.

to become an integrated textiles manufacturer.

Mr. Cha's business grew fast from what he describes as "modest beginnings", but by the mid 1960s new problems were starting to appear. Developed countries (including the U.K.) were putting quotas on imports of Hong Kong textiles and developing countries were raising tariffs. One way round this problem, adopted by almost all major Hong Kong textile producers, including China Dyeing, was to move into garment manufacture. Another way round was to set up operations overseas.

Mr. Cha was a pioneer in the latter field. He put his company into Nigeria from 1964 onwards, establishing a factory in Northern Nigeria in partnership with Northern Nigerian Investment (a joint venture between the regional government and the Commonwealth Development Corporation). Nigeria had been a substantial market for China Dyeing before Mr. Cha decided to start operations there.

After the success of the initial Nigerian venture China Dyeing set up three more Nigerian factories and then established manufacturing presences in Ghana (1967) and Indonesia. The Ghana venture generates about one-third of combined turnover in Nigeria and has run into problems, including a shortage of local cotton supplies. The Indonesian venture (established in 1974) is confined to spinning. Overall, however, China Dyeing now produces about six times as much outside Hong Kong as it does within the Colony.

Mr. Cha's problem is where to go and what to do next. He discounts the possibility of any further investment in textiles in Hong Kong, except in modernisation of existing capacity. One reason for the poor local prospects is the restraint on Hong Kong's exports to practically all its traditional overseas markets. The other is that the industry is running short of labour because it offers poorer working conditions than the fast growing electronics industry (Mr. Cha claims that his labour force in dyeing and finishing is between 10 and 15 per cent. below optimum levels — he also rules out the possibility of Hong Kong importing "guest workers").

Outside Hong Kong there is still theoretically scope for expansion, but in practice things are getting more difficult. China Dyeing has been obliged to "nigerianise" its operations in Nigeria by appointing Nigerians to its board, increasing the numbers of local managers and technicians and selling shares to the public. Similar demands for local participation exist in almost all other potential producing countries so that the simple expedient of producing textiles in places other than Hong Kong no longer seems to work.

Mr. Cha, a deceptively quiet and modest 60-year-old, has

dealt with this situation by making another bold leap — this time across a technical as well as a national frontier. Two years ago China Dyeing set up an American associate — Umtech Inc. which has developed and begun to market a \$500 "Video Brain". Mr. Cha claims to have stolen a march on Japan with this new product, which is, in effect, a mini-computer connected to a television set and working on ready made programmes fed into it on cassette tape (the video brain will play draughts, work out mortgage rates and calculate the returns on various investments and perform many other useful domestic tasks). He plans to manufacture 10,000 units in the U.S. during 1978, together with a range of 12 cassette programmes retailing at up to \$50 but averaging \$17 per tape.

Mr. Cha's move into electronics was based on his appreciation of two factors. One: China Dyeing had enough liquid assets after years of profitable textile manufacture to buy top level technical expertise in a new industry—and to buy American expertise at that. Two: Hong Kong's low labour cost should help it to retain a competitive edge in consumer electronics because the assembly work involved is too intricate to be easily automated. Mr. Cha plans to start making video brains in Hong Kong as soon as the U.S. venture has got into its stride (the first sales were made only in January). He also plans to sell in Japan, though he is realistic enough to admit that could pose a few problems.

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faith in property was the disappearance of the old Chinese extended family system, in which three generations lived together, and the appearance in Hong Kong of the western style nuclear family system. "People need more room when they do not all live together under the same roof," says Mr. Li. He also stresses that Cheung Kong's interests in Hong Kong property have always been in the mass market, that is in developments aimed at ordinary people, not just at the very rich.

Cheung Kong's money has gone into "medium to high class" residential development, office buildings and industrial buildings. Recently it has been branching out with the acquisition of the company which owns the Hong Kong Hilton (plus a hotel in Bali, which gave Cheung Kong its first piece of overseas real estate). Another departure has been Cheung Kong's partnership with the Hong Kong Mass Transit Corporation in the development of multi-storey blocks to be built over underground stations in Hong Kong's central business area.

Mr. Li used the profits from his plastic company to finance his early property development ventures but, by 1965, was already starting to feed some of his property profits back into his plastic. He says having a stake in "industry" enables him to "smell" where the property market is likely to go into the next year or two. (His view is not regional, but global.)

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Cha Chi Ming

MR. CHA CHI MING, chairman of China Dyeing Works, is a typical Hong Kong textile manufacturer, except that he has not been content to stay in Hong Kong—or in textiles. Like many of his colleagues and competitors Mr. Cha was in business in Shanghai before the Communist takeover of China forced him to shut up shop in 1949. He left Shanghai "with a little money and a few staff" just before the Communists moved in and established himself in the Tsun Wan area of the New Territories, where a good supply of fresh water and plenty of cheap land was attracting other textile manufacturers in the early 1950s.

In Hong Kong, Mr. Cha found he had to export—something that had not been necessary in Shanghai because of the size of the domestic market. However, in those days Britain "looked after" Hong Kong, Mr. Cha notes, and finding overseas buyers was not really difficult. China Dyeing accordingly expanded from its original concentration on dyeing and finishing into spinning and weaving

absolute faith in his own ability to spot growth sectors in the Hong Kong economy. By the age of 20 Mr. Li was general manager of the small trading concern he had joined when his father died. Two years later he had saved up \$HK50,000 and was ready to start his own company. He chose plastics because in the early 1950s the industry was still young and "I could see good prospects for substitution in areas where wood and metal had been dominant."

Around 1957 Hong Kong plastics industry discovered the secret of making flowers that looked real, and Mr. Li switched all his resources into flower making. "We knew plastic flowers were better than paper ones because you can wash them and they last for ever," Mr. Li's company was Hong Kong's biggest plastic flower makers for the next 10 years until he decided to move into something else because "the technology was getting too easy to imitate."

Mr. Li claims that in the last six months of 1969 his company was still the biggest in Hong Kong in terms of employment and turnover. A year later it had switched to toys, which it continues to make to-day. The chairman, however spends less than one hour a month in his factory. All the rest of his time goes into the property business.

Mr. Li started investing in property in 1958 "because I could see that the supply of land in Hong Kong was limited (the first 12 years)", a fair for dealing with people and an

Geoffrey Yeh

LIKE MANY of Hong Kong's top textile manufacturers, Geoffrey Yeh is a refugee from Shanghai. His father Geoffrey (still a non-executive director at the age of 79) started the family construction business there before the war and shifted to Hong Kong when it became clear that the Communists were going to take over. During the past three years the Yehs' company, Hsin Chong Holdings, has been riding the crest of the Hong Kong construction boom. Turnover last year, at \$HK200m. was 30 per cent. up on the previous year and profits are double what they were in 1974.

Hsin Chong's problem during the boom has been to find and keep enough skilled staff to maintain the standards it thinks desirable on its construction sites. "We train people for four years," Mr. Yeh says, "but often lose two thirds at the end of the training programme."

Technical staff salaries are reviewed every six months and the best people have tripled their salaries over the past

three-to-four years. Anyone who has only managed a 40 per cent. pay rise since 1975 is a failure by Hsin Chong standards.

Mr. Yeh is uncomfortably aware that Hong Kong may have to start using imported construction workers if the present building boom goes on for another year or two—but he hopes the influx will not become a flood. "What we really need to do is improve our own productivity," he says. As of now, productivity in the Hong Kong construction industry is far below Japanese levels, partly because Hong Kong builders still use bricks. Local constructors have nevertheless managed to hold their own against Japanese and Korean competition because of their expertise in building high rise structures in confined spaces (unlike the Singapore construction industry which has lost a number of major contracts to Japan during the past few years.)

Hong Kong builders, including Hsin Chong, are keeping a close eye on the construction market outside their own territory. There are "prospects" in the Middle East, especially in Saudi Arabia where a few high rise projects are under consideration, which may call for the special skills of companies like Hsin Chong. But Mr. Yeh sees little chance of rolling back the gains acquired by Korea in general purpose construction in the Middle East.

Hsin Chong's own way forward during the next year or two—if it can spare staff from its main line of office and residential construction, will be "into some of the big civil engineering projects now in the pipeline for Hong Kong and" perhaps also into insurance (a profitable sideline which is already earning the group some \$HK20m. or \$HK30m. per year in premiums). In both areas the policy will be to go for the top of the market and to stress quality and service rather than volume. Hsin Chong is not interested in carrying of a massive share of the next phase of the Hong Kong Transit project "although we may bid for one or two contracts just to test the water." It prefers government contracts—with price adjustment clauses to the fixed price contracts favoured by the Mass Transit Corporation (on which some of its most aggressive competitors lost heavily during the first year of the project).

In insurance Mr. Yeh says the strategy is to play fair and sell policies people understand—rather than to take customer to the cleaners by not explaining to them what is written in the small print. Hsin Chong insurance subsidiary has been a member of Lloyd's since 197 and is placing reinsurance business in West Germany and Switzerland as well as in London. It sees a substantial untapped market for insurance in the Chinese business community in Hong Kong and other parts of South East Asia.

Li Ka Shing

MR. LI KA SHING would have become a teacher if his father had not died when he was 16. Instead he became the chairman of Hong Kong's biggest plastic flower manufacturer and then (after moving out of plastic flowers in the late 1960s) the founder of what has become Hong Kong's second largest property developer, Cheung Kong (Holdings), in terms of the book value of its properties, is still only about one-quarter the size of Hong Kong Land, the top dog for time immemorial in the Hong Kong property world.

Its growth rate, however, has been unprecedented. The company owned 6.35m. square feet of property at the end of 1976 and 10.2m. square feet a year later. Mr. Li says he thinks expansion may slow down a bit in the years ahead if only because the Hong Kong property market cannot be expected to continue booming as it has done in the past year or two. He is absolutely confident, however, that Cheung Kong still has far to go in terms of profits and turnover. "Our income will go on rising, because most of the land we hold was bought at prices far below present market levels: at the very least we expect to add 30 to 40 per cent. to our fixed income over the next three years."

The story of Mr. Li's rise is a familiar one of desperately hard work ("I worked 16 hours a day, seven days a week for the first 12 years"), a flair for dealing with people and an

absolute faith in his own ability to spot growth sectors in the Hong Kong economy. By the age of 20 Mr. Li was general manager of the small trading concern he had joined when his father died. Two years later he had saved up \$HK50,000 and was ready to start his own company. He chose plastics because in the early 1950s the industry was still young and "I could see good prospects for substitution in areas where wood and metal had been dominant."

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that prices in Hong Kong will not go up during the next two years at anything like the rate of last two, but will not go down either. On his relation with banks Mr. Li says: "I could borrow \$HK300m. 400m. in less than 72 hours if I wanted to, but we have no intention of becoming over-dependent."

Cheung Kong's bank borrowings currently account for about 20 per cent. of the book value of its properties a around three times the value of its fixed income (that is, income from rents on its properties). Its position in the Hong Kong property market is probably unshakable by now but this may not be enough for Mr. Li. Cheung Kong admires the way that it is studying a move into overseas property developments and the studies it is making next year or two. (His view is not regional, but global.)

Tsang Hsiang Wang

MR. TSANG HSIANG WANG is a professional investor but a rather unusual one. He does not run an investment trust, but invests only his own funds and those of two or three other like-minded Chinese businessmen. He also seems firmly opposed to the idea of spreading his risks. For the past five or six years Mr. Wang and his friends have been conducting "intensive" purchasing of selected Japanese shares, starting with the leading soap manufacturer Kao Soap in 1975, switching to the monosodium glutamate manufacturer Ajinomoto a year or so later and then, in early 1977, buying massively into the top Japanese paper manufacturer Oji Paper.

Mr. Wang and his friends at one time held as much as 18 per cent of the stock of Kao Soap, before selling out with a 50 per cent profit on their original investment. They bought Ajinomoto at ¥400 per share and sold six months later at ¥535—a profit of 33 per cent. But things have so far gone rather less well with Oji Paper.

When Mr. Wang started buying the shares a year or so ago, the price was ¥380 per share, but it has so far only moved to ¥387 despite a number of built-in advantages which Mr. Wang feels should make the company an attractive investment. Another cause of annoyance was the simultaneous though temporary refusal one day last October of the eight Japanese securities companies which have Hong Kong offices to sell Mr. Wang any more Oji shares.

Mr. Wang says he thinks he understands where the eight securities companies suddenly became unable to sell. They had not been specifically forbidden to do so by the Ministry of Finance, which would have considerably overstepped its competence in such matters if it had tried to ban any further sales. The securities companies, however, had been called into the Ministry and asked questions about their operations in Hong Kong, which in the context of the close involvement of the Japanese Government in the affairs of private business, was enough to cause some anxiety.

One of the original syndicate members, Mr. Fung King Hey, sold out of Oji when problems started cropping up. Mr. Wang and his friends are standing firm. They are fully entitled under Japanese law to maintain their 13 per cent holding, as long as they wish (the maximum permitted shareholding for foreign investors in Japanese companies is normally 25 per cent). They also believe that there are good reasons why Oji should eventually appreciate substantially.

These include the likelihood that the Japanese Government will decide to redenominate its currency within the next year, or so—thus boosting the

demand for paper and printing. Oji also happens to be the biggest corporate landholder in Japan with properties, Mr. Wang says, roughly equal to the whole area of Hong Kong and the New Territories. Mr. Wang claims that Oji could increase its profits substantially if it bought more of its wood chip requirements from cheap U.S. suppliers instead of buying over half from dearer Japanese sources.

Mr. Wang says he plans to attend Oji's annual meeting in the early summer and raise a number of points about the company's current management policies and the scope for improving its profitability. He points out that shareholders who own more than 10 per cent of the equity of a Japanese company have the right to demand an independent audit. He recognises that awkward questions are not normally asked at the annual meetings of Japanese companies and that those who do ask them can find themselves subjected to fairly vigorous pressures not to pursue their inquiries. Mr. Wang is prepared to put up with this, even, he implies, at some personal risk.

Why did Mr. Wang become a full-time professional investor in Japanese securities and why does he make a practice of putting all his eggs into the same basket? The answer to the first part of the question is that he speaks and reads fluent Japanese, having been educated at a Japanese school in Taiwan (where his father was a coal mine owner) during the war. The answer to the second part is that Mr. Wang, like other Hong Kong businessmen, has a lot of faith in his own judgement. He spends four hours a day reading Japanese newspapers and market reports and habitually puts in at least six months of study before deciding to buy a stock. He also makes full use of the services of Japanese business inquiry agencies.

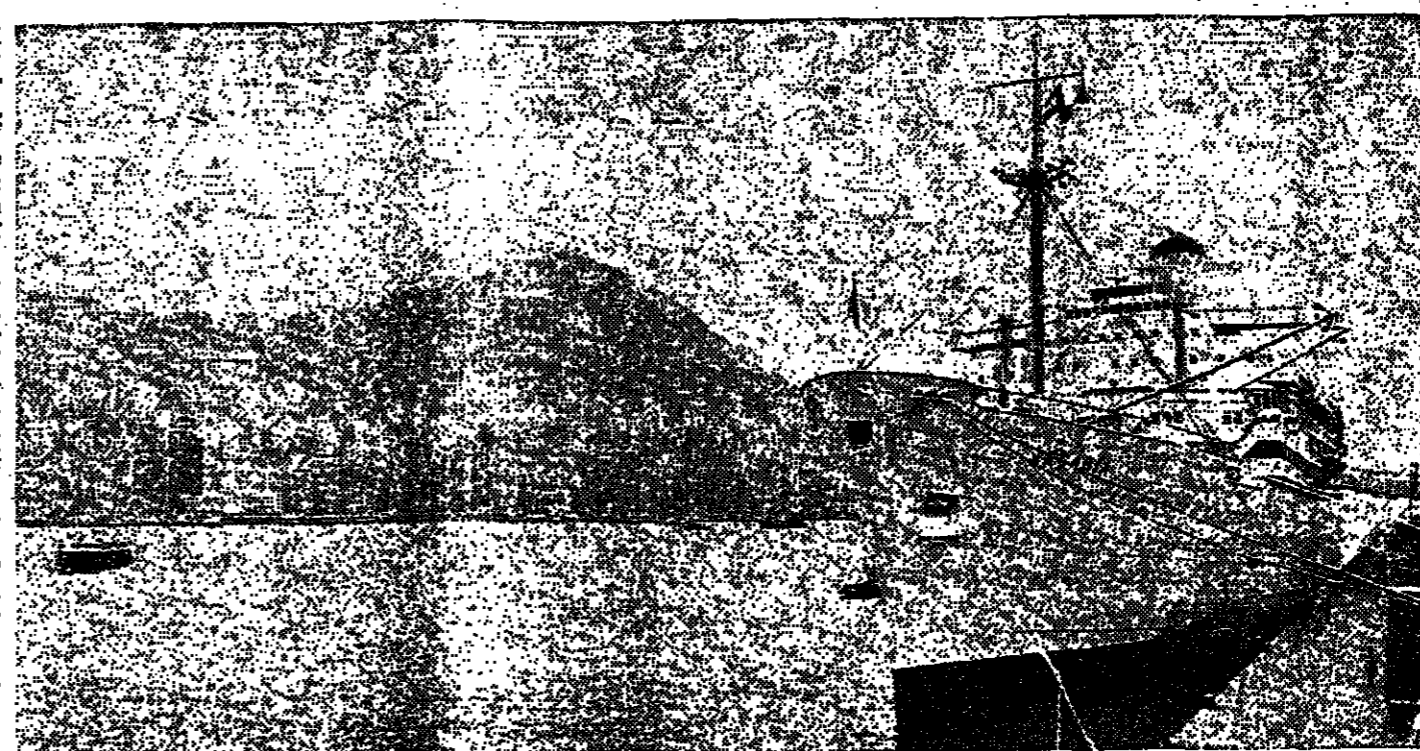
Mr. Wang has \$70m. invested in Oji at present (13 per cent of the total equity) and will probably leave it there until the end of the year or longer (depending on when the Japanese Government announces its plans for redenomination). When he sells his shares there is a chance that he may move into Wall Street or into the London Stock Market, where he detects some interesting situations connected with North Sea Oil.

British stockbroking firms would presumably find Mr. Wang a rather unusual kind of customer. But Japanese securities dealers, who have not yet got over their embarrassment about the events of last October, currency within the next year, or so—thus boosting the

TOURISM IS Hong Kong's third biggest revenue earner. This year it should contribute over \$1,400m. to the Colony's income, or well over 10 per cent of foreign earnings. And, unlike textiles and electronics, which head it in importance, tourism is not at the mercy of tariff walls and EEC restrictions.

Hong Kong has been very successful in attracting visitors. In 1977 over 12m. arrived, a rise of 12.6 per cent on 1976, and this year another gain is expected. Most of them come from Japan—almost half a million last year—and the rest of South East Asia contributed another 420,000. Then came the Americas with just under 20 per cent, and Australasia with 11 per cent. There were 71,000 visitors from the U.K. in 1977, but this did represent a jump of 23 per cent on 1976. There is no knowing, of course, whether the visitors are holiday-makers or businessmen.

What is known is that the visitors only stay an average of four nights, and one of the purposes of the Hong Kong Tourist Association is to try and persuade tourists to stay longer. In the past the main attraction of Hong Kong to tourists has been its shopping, and even today, of every dollar spent by the visitors 61 per cent goes in the shops; but the percentage is falling slightly. The aim now is to publicise the other delights of Hong Kong and, in particular, to push the appeal of the Colony as a two-centre holiday—the island of Hong Kong and Kowloon, across the harbour for shopping, night life, restaurants and all the big city comforts, and, in complete contrast, the quiet beaches and rural charms of the 200 and more islands in the Colony as well as the undeveloped



The P & O liner Arcadia at the Ocean Terminal, Kowloon.

countryside of the New Territories, on the mainland of China.

In the past it was difficult to persuade visitors to linger on the islands because of problems of access and, more important, the lack of hotel accommodation away from the urban area. Now this is changing. By the end of the year holiday apartments should be completed at the Sea Ranch on the south east of Lantau, a larger island than Hong Kong but until now largely unexploited. By 1981 a very extensive resort complex should be built at Discovery Bay on the north of Lantau. In theory Lantau, with its extensive beaches, unspoilt villages and attractively green hillsides,

offers a wonderful new dimension to bustling Hong Kong. Until the projected bridge is built linking it to the New Territories, the dependence on sea communications will restrict the number of visitors, but in theory the island makes much easier the task of the Tourist Association in persuading visitors to stay longer.

Although Lantau offers the most long-term potential, other escapist areas are not being ignored. A six-storey hotel on the small but fascinating island of Cheung Chau is due to open next year, and at Clearwater Bay on the Kowloon peninsula in the New Territories, a major project, with an 18-hole golf course and a yachting marina is under way. Not far away, at Sai Kung, another golf course and hotel is planned. The New Territories are in their way more attractive even than the islands—the miles of rugged coastal scenery, the many inlets, the beaches, the remote fishing villages, look like Norway set in the mellow light of the South China Sea and access to the New Territories to Hong Kong is itself so much easier.

In addition to persuading visitors to add a few relaxing days at a seaside resort on the end of their frenetic stay in hotels are being built in the

Hong Kong, the Tourist Association is also endeavouring to lure holidaymakers during the slack times of the year. According to John Pain, executive director of the Association, "what we want to do, ideally, is to shift visitors who are shut out at the peak months due to lack of accommodation and facilities to the 'trough' periods of June to August, and the middle weeks in December, January and March." At the moment Hong Kong is packed with tourists in October and November, when the weather is at its best, but the summer can be hot, damp and very humid, and December and January are inclined to be chilly, although, with little warning, the temperature can climb to the eighties, even in mid-winter. It will be difficult to spread the tourist load, but attractions like the Hong Kong Arts Festival in January and the Chinese New Year Festival in February are starting to make an impact, and the very congestion in the hotels in the most popular months is also forcing visitors to take a chance on the weather.

Hong Kong is now short of hotels. It has currently 13,800 rooms, and their occupancy rate is at the highest in the world. New hotels are being built in the

centre, most notably the New World Development on Kowloon which adds another 700 rooms. Unfortunately, this will not be ready until December instead of August, as anticipated, so it will miss out on the peak 1978 months for visitors. All told an extra 2,000 rooms should be available in 1979, but they will do little more than mop up the anticipated extra inflow of tourists.

Package

At the moment most visitors come on package tours, especially from Japan. The Tourist Association has a third aim in encouraging more individual holidaymakers, who tend to stay longer and to spend more. It is well suited to cater for them by having two of the finest hotels in the world in the Peninsula, which specialises in a traditional charm and comfort, and the Mandarin, which dispenses modern luxury. There are many more towering newly built hotels which can hold their own with any in London or Paris, and indeed of the 13,800 rooms on offer, 10,000 fall into the high tariff category. This does not mean that they are necessarily expensive; only that Hong Kong does not cater

for visitors who want to live on the cheap.

Apart from the money that the tourists bring in—the average expenditure per head is \$HK2,200—the industry is a big employer of labour. Around 100,000 Chinese are directly employed. Usually hotel staff, waiters, and taxi drivers are quick and efficient, but sometimes rather abrupt. Now the Hong Kong Tourist Association has launched a courtesy campaign, one of the most ambitious of its kind. Pleased guests can give helpful waiters or bell-boys points which go towards more tangible rewards.

Hong Kong takes its visitors seriously. A 4 per cent, from tax, plus Government help, gives the Tourist Association an annual budget of \$HK50m, which supports advertising, seven overseas offices, and very good information manuals for travel agents. The figures suggest that the attractions of Hong Kong are appreciated by fellow South East Asians, but the Colony would dearly love more tourists from Europe, the Americas, and the Middle East. At one time it was considered to be a cheap kind of place, and there are still bargains for the shopper. But its greatest appeal now is giving value for money in its hotels, restaurants and internal travel, and in making more of its sites, both natural and manufactured.

In such ventures as Ocean Park, an ambitious museum of marine life overlooking the sea near Aberdeen and reached by cable car, and the new Convention Centre, it is widening its interests and forcing visitors to stay on those extra few days. Combining time in Hong Kong, urban area with time on its islands and in its countryside, waits on the building of hotels, but in a few years the Colony could offer tourists one of the best bargains in the travel industry. And every year Hong Kong becomes an easier place from which to jump off into that intriguing new dot on the tourist map—China. Already four day trips to Canton can be joined easily in Hong Kong, and that old favourite jaunt to the most Hong Kong visitors—a look into China from a New Territories' hill will soon seem an irrelevance.

Alex Au

Mr. Alex Au is a self-made man even by the standards of Hong Kong. He arrived from Taiwan where his family runs a small tea broking business) in 1961 and apprenticed himself at the age of 14 to a plastics company which was turning out cases for the local radio industry. After a couple of years he "resigned" and set up as a broker finding customers in the electronics industry for makers of plastic parts and components. After two more years of this he saved enough to buy his first injection moulding machine and was in business on his own account.

Mr. Au's original Chee Yuen Industrial Company, which owned the one and only injection moulding machine, is now part of a group of 31 companies active in plastics, electronics assembly, electronic components and entertainment. The group holding company, set up two years ago, is called Conic Investment Company (a name suggested by a Japanese freelance designer who also designs the exterior of most of Conic's consumer products). The group claims to account for 30 per cent of Hong Kong's exports of radios, cassette recorders and digital clocks.

During the past two years it has set up factories in Taiwan and Singapore and this year it plans to establish plants in Thailand and the Philippines (where Conic products will qualify for tariff cuts under the U.S. Generalised System of Preferences which do not apply in Hong Kong).

Conic also has a sales and research company in Japan staffed in part by Japanese technicians whom it "bought" from leading Japanese electronics makers with salaries approximately 30 per cent higher than they were getting. Its strategy for the next three or four years calls for the development and production of a low-priced video cassette tape recorder (VTR) priced at perhaps \$HK1,500, as against the \$HK7,000 price tag carried by most Japanese models. Conic also intends to protect its own brand name on to world markets instead of selling nearly all its output to other manufacturers for marketing under their names.

Selling mainly through other manufacturers is one reason why few people, other than bankers, seem to be familiar with Conic's name even in Hong Kong itself. Another reason is the deliberately low profile which Conic itself has maintained up to now. The company's head office, for instance, is on the fourth floor of a nondescript multi-storey factory building in Kowloon.

Mr. Au himself keeps well in the background despite a fluent command of English (acquired in the intervals between building up his industrial empire) and of three Chinese dialects besides his native Hokkien.



Alex Au.

When Conic decided to publish a brochure early this year introducing a new subsidiary, Conic TV, which will make TV commercials, it took Mr. Au's staff a month to persuade him to allow his photograph to appear at the bottom of an inside page.

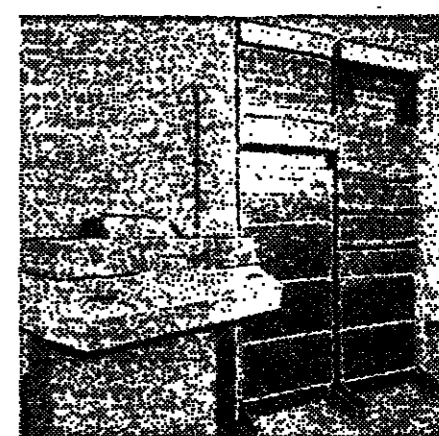
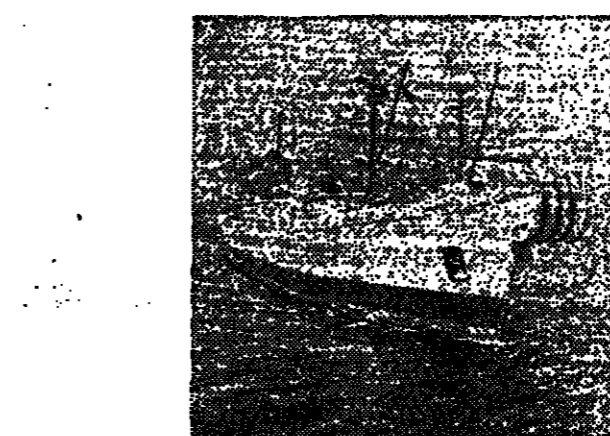
Alex Au's right-hand man, Mr. S. K. Cheung, says that Conic got where it is today because the chairman is a "fast learner" and because he has a flair for handling people. Au never sacks anyone, Cheung says, on the grounds that to do so "creates a burden on society." On the other hand his staff say he can pick up anything from finance to technology a good deal faster than most of his employees.

Au's family is still in Taiwan where an uncle is running the tea business he himself declined to join. The group manages, however, to have links with China proper and may even enter into a subcontracting tie-up under which it will supply parts for assembly at factories in neighbouring Kwangtung province. The finished products would then be shipped back to Hong Kong and marketed under the Conic label.

With sales of some \$HK800m. a year the Conic group is at present about one tenth of the size of Sony. However, its turnover has grown sixfold in the last five years and growth is clearly not about to stop. Mr. Au owns 95 per cent of the shares in Conic. His staff say the company will go public when it needs more money for expansion than it can get from its own reserves and from its (exceedingly willing) bankers.

Apart from money Conic clearly needs technology. It has passed the stage, Mr. Cheung says, where it can copy Japan, though he frankly admits this was done in the early stages of the company's growth. What it can do, and is doing, is to buy experts and expertise from Japan and anywhere else the company thinks it may have something to learn.

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Main parties seek hope from local polls

BY COLIN JONES

AS A TEST of public opinion, local elections may not be ideal. Only about one voter in three usually bothers to go to the polls. Past experience suggests that the party in power at Westminster — especially Labour — can underpoll anywhere up to 45 per cent of its probable General Election strength. And, in contrast with General Elections, there is more scope for local issues and minority political groupings.

But this will not deter the three main political parties from regarding the outcome of next week's local elections in England and Scotland as a further test of their national standing. In all, just over half of the British electorate will have the opportunity to vote, or about 80 times as many people as in the current crop of Parliamentary by-elections. Most of the seats to be filled next week were last contested in 1973 or 1974 when Labour was doing relatively well — though not spectacularly — well. But about a sixth of the total were last fought in 1978 when the Conservatives were riding much higher in the opinion polls than now. So it is quite likely that both parties will be able to claim gains next week.

In most places, too, it will be possible to make a direct ward-by-ward comparison with the votes in last year's county elections in England and the district elections in Scotland. So the results should provide a useful indication not only of the recovery in the Government's popularity over the past 12 months but also of how far the Liberal vote has been further eroded by a year of the Lib-Lab pact, of whether the Scottish Nationalist vote has in fact peaked, as the Glasgow Garscadden by-election result would seem to suggest, and — for

(Orkney, Shetland, and the Western Isles), Independents won all 75 seats last time. All 12 councils were elected a shadow authorities in May 1974 in preparation for the re-organisation of local government in Scotland in the following year. Their entire memberships now come up for election.

Two days later, on Thursday week, elections will be held for three different types of local

direct comparisons with then — and with last year's G.L.C. results — will be difficult to make. Ward boundaries have been re-drawn, except in England where objections were made to the proposed changes; and the total number of council seats has been increased by 39 to 1,606 to accommodate population changes. At the same time, the post of alderman has been abolished.

In the English metropolitan areas of West Midlands, Greater Manchester, Merseyside, South Yorkshire, West Yorkshire, and Tyne and Wear, the ward boundaries remain as before. This year it is the turn of the district or lower-tier authorities to go to the polls but only a third of the seats on each council are elected at a time. Previous elections were held in 1973 and 1976 and this year the final third of the councillors originally elected in May 1973 come up. They are the ones who topped the poll in their wards on that occasion.

Because the metropolitan districts are responsible for education and personal social services, among other functions, they are almost as powerful bodies as the Scottish regions and English shire counties; they account for about 80 per cent of the £430. plus a year spent in their areas.

Finally, elections take place on Thursday week in 44 of the 296 English non-metropolitan districts. These are the places where re-warding had been completed by 1976, when the last shire district elections were held, and where the local council has since opted to have a third of their membership come up for the vote at a time rather than to have the entire council re-elected at one go (as in 1973

LOCAL ELECTIONS 1978						
Date	Number of Councils	Seats	Last election	Party control now (councils)	Party control now (seats)	No control
May 2	Scotland	9	432 (all)	2	1	2
May 4	Regions	3	75 (all)	—	—	3
May 4	London	32	1,706 (all)	18	14	—
May 4	Metropolitan Districts	36	854 (all)	17	17	—
May 4	Shire Districts	44	673 (all)	6	31	6
	Totals	124	3,940	43	63	12

and 1976). This time it is the turn of the elected candidate with the lowest vote in each ward in 1976.

Most of the 44 are located in southern and eastern England but nine are in the north-west, which is often regarded as something of a political bell-wether, and three are in the West Midlands. They include none of the big cities — the largest are Southend-on-Sea and Thamesdown (formerly Swindon). As lower-tier authorities, their functions are limited to such matters as housing, refuse collection, planning control, and local environmental services. Their share of local government spending in their areas accordingly averages about 15 per cent.

The smaller Conservative lead which is now being shown in the opinion polls and Parliamentary by-elections means that the results next week are likely to be much less spectacular in terms of Conservative gains than in the past three years. Except in London, most of their best prospects have already been captured or are not up for election. The fact that only a third of the seats are being voted in the English metropolitan and shire districts is also a limiting factor. Tory

gains in the "Mets" and in London are also likely to be counterbalanced by Labour regaining some of the ground it lost in the shire districts in 1976.

In London, the Conservatives would probably have won 11 or 12 of the 18 boroughs Labour now controls if the voting at last year's G.L.C. elections were to be repeated. This would have been sufficient to give the Conservatives control of ILEA as in 1968. The results this time are likely to be much less dramatic. But, judging from the by-election results at Ilford, North and Lambeth Central as well as the latest opinion polls, the Conservatives ought to win five to six outer London boroughs — Brent, Ealing, Hounslow, Waltham Forest, possibly Haringey, and also Hillingdon, where the Labour council's spending record yielded the highest anti-Labour swing at last year's G.L.C. election.

This would be sufficient to lose for Labour control of the Association of Metropolitan Authorities, the only one of the three local authority associations it now runs. If the swing to the Conservatives were higher than expected, then Salford (majority 10), and

Wolverhampton (eight). At Sandwell (formerly West Bromwich), where the Conservatives need six of the 21 seats Labour is defending to win control, they could be helped by some of the retiring Labour councillors standing as independent candidates against the official party candidate. South Tyneside is also worth watching. The Progressives are the second largest party there with 25 seats to Labour's 34, five Conservative, and two Liberal. Labour needs to lose only two of the 15 seats it is defending to lose overall control.

On the other hand, Labour could become the largest party in Liverpool if the Liberals net losses exceed their own. In the shire districts, Labour's hopes of winning councils it lost to the Conservatives in 1976 are probably limited to the four listed in the table plus — as a long shot — Cambridge. In Hartlepool, Labour is hoping to regain ground from the Conservative/Ratepayer coalition which now runs the council but a Labour win seems unlikely.

In Scotland, Labour would lose control of Strathclyde and Fife while in the Lothian and Central regions, which it has been running without overall control, the Conservatives and the SNP respectively would become the largest party if last year's district council voting patterns were to be repeated. The Garscadden result would suggest that Labour is safe in Strathclyde and Fife. The SNP is putting in a much bigger effort this time than in 1974. In Strathclyde, Tayside and the Central region its showing could be decisive. But, again, the Garscadden result suggests only a limited advance from the 25 district council seats the SNP currently holds.

A GUIDE TO NEXT MONTH'S RESULTS

ON CURRENT TREND	ON HIGHER ANTI-GOVERNMENT SWING	
	Cons. gain	Lab. swing
London Boroughs	Brent Ealing Hillingdon Hounslow Waltham Forest	Camden Hammersmith Lambeth Wandsworth
Metropolitan Districts	St Helens	Manchester Salford Sandwell S. Tyneside
Scottish Regions		Tayside Fife Strathclyde
"Shire" Districts	Lab. gains Peterborough Tamworth Thamesdown Walsley-Hatfield	Cons. gains Watford Lab. losses Ellenborough Port

In England and Wales, their responsibilities include education, personal social services, structure, planning and transport and they spend about 85 per cent of the £2bn. or so a year which is devoted to local government services in Scotland.

In the central belt and in east Scotland, where the main inter-party battle is waged, they are regarded as the big prize. Elsewhere, independents with no clear party affiliation tend to predominate. In the three all-purpose island authorities

authority in England (there are no elections this year in Wales). The 32 Greater London boroughs are responsible for just over half of the £430. plus a year spent on local government services in the capital — and in inner London are represented on the Inner London Education Authority which the Conservatives could gain if the anti-Government swing were to be as large as at the G.L.C. elections last year (which is unlikely). The London boroughs were last contested in May 1974. But

Letters to the Editor

Successful design

From Mr. P. Kent.

Sir—Mr. Pugh, the Smallpiece reader in design (April 19), is rightly critical of the definitions offered for engineering as opposed to industrial design. While recognising that design is made up of several facets, he fails to acknowledge that design itself is only a facet of manufacturing enterprise. Design is not an all-embracing activity as he suggests, but rather is itself embraced by the management disciplines of manufacturing and marketing.

There have been several attempts to develop a spurious case for design management. Design should be more helpful if designers attempted to locate the responsibility for design initiative within a company and then took their place within the business management team, instead of arguing for their own line of management.

As Viscount Caldecote said while chairing a recent Royal Society of Arts lecture: "Too many designers have a reputation for wanting to design the thing for the fun of it without too much concern whether it is marketable and profitable." The eventual design of a product is the result of a total business consideration and far too important to be left to designers. There is a need not so much to reconcile the semantic distinctions between industrial and engineering design but to integrate the twin lines of design skills represented by the art/design colleges and the engineering schools, and then to fit these skills into the context of manufacturing industry.

A successful design has got to be capable of being manufactured, but why is it that so few designers wish to play a part in ensuring that products are also marketable?

P. Kent.

64, Dry Hill Park Road, Tonbridge, Kent.

Saving the IR work

From Mr. J. Hanson.

Sir—The Inland Revenue fears that the manually-operated PAYE system is near collapse. Here is a suggestion that might offer the IR employers' pay-rols staffs and, possibly, pensioners some relief. Why not equate the personal allowances available to national retirement pensioners with the pensions they actually receive? Pensions could be reviewed as from the first pay-day following April 6 instead of mid-November as at present.

Direct correlation of these pensions with the allowances would be a logical base for the assessment of the latter. Employers, in paying their pensions, need only deduct at standard rate and would have fewer coding notices to handle. As the national retirement pensions would now be tax-free, there should be less confusion in the minds of pensioners not versed in tax procedures. Any adjustment resulting from lower tax bands, investment surcharges, etc., could be made by the local Inspector and thereby lighten the load of the PAYE centre.

I write from personal experience. When my index-linked occupational pension was sufficiently high to absorb the taxation of my State pension, my files were transferred from the local office to the PAYE centre at Rye. Result—still awaiting my 1976-77 assessment and the return forms for 1977-78. Hitherto the whole affair was settled within two to three months after the close of the tax year.

James Hanson.

4 Ashton Court, Lime Grove, Lytham St. Anne's, Lancs.

Market risk

From the Research Officer, Association of Chart and Technical Analysts.

Sir—Mr. Damant's reply (April 11) to my letter concerning index funds raises some very interesting points. I fully accept his explanation of the fund's desire to protect itself against a possible law suit for having bought low quality issues. At the same time, it is a regrettable situation if the fund manager has to virtually cease to manage lest he underperform the market, especially if this results in him confining his activity to weeding out just those kinds of shares that actually end up performing the best. In any case I don't think that there is any evidence that in the past fund managers actually have been able to pick out potentially good or bad performers, or

assess risk, with any consistent degree of success.

Mr. Damant introduces the idea of risk in the context of the efficient market theory and says that he is not surprised that the share price index, since high risk is correlated with high reward. This isn't strictly true (if it were all anybody would need to do would be to buy high risk shares).

What the efficient market theorists claim is that if you buy a high risk share, and you get the market right, then it will outperform the index. You can't, however, take any credit for this since, if you had got it wrong, and the market fell, the share would in this case have done that much worse than the index (although, similarly, you would not have been blamed). In the case of the index fund discussed, however, we had a portfolio of 19 discarded shares that actually gained in value while the market fell!

The idea of risk equivalence is central to the efficient market theory, and is the latter's final weapon with which to deny anybody who does demonstrate superior performance. The whole idea of risk adjusted performance is totally spurious, however, and is in fact the product of a circular argument: if it is assumed a priori that the market is efficient and hence (after allowing for the long term secular trend) is as likely to rise as to fall at any moment in time, then it may be valid to perform a risk equivalence analysis in order to qualify any apparently superior (or inferior) investment performance on this basis. You cannot, however, then use such an analysis to prove that the market is efficient.

The U.K.-U.S. tax treaty

From Mr. J. Newman.

Sir—Having written to you before (February 23) on the new U.K.-U.S. tax treaty, I would like to make some comments on the draft directive of November 1973 three relevant conclusions are reached: the Commission favours an imputation system like that of the U.K., Germany, Ireland, France and Denmark; the Commission feels that on top of the effective withholding tax caused by the imputation system a further withholding tax of 25 per cent should be applied to "discourage tax evasion." This system has now been put into effect in Germany; and the withholding tax of 25 per cent need not be applied when dividends flow from one EEC member State to another or if there is no risk of tax evasion.

It seems to me that the U.K. Treasury is blatantly ignoring the EEC aspect. Perhaps in due course another volte face will occur similar to that on the introduction of VAT from purchase tax.

To clear up any confusion that may arise the Hong Kong and Shanghai Bank will not benefit from the new U.K.-U.S. treaty and the unitary principle will still apply to its California subsidiary. This is because the bank is not a resident of Hong Kong. The latter treaty has never negotiated a double tax treaty for the simple reason that it does not levy tax on overseas income. Thus double taxation cannot apply for a Hong Kong resident.

It is worth mentioning that the U.S. agreement is not the only one which gives back part of the advance corporation tax paid to a corporation owning over 10 per cent of the share capital of the U.K. company concerned. The protocol to the double tax treaty with the Netherlands came into effect last November and gives this treatment.

J. A. Newman.

21, Mincing Lane, E.C.3.

Forgotten sovereign

From Mr. R. Plummer.

Sir—You reported (April 19, Page 1) that "The Isle of Man is to have Britain's first £1 coin. It will probably be smaller than 50p piece." Is the sovereign not only gone, but forgotten?

R. Plummer.

Serenouks, Kent.

To-day's Events

TUC Finance and General Purposes Committee meets.
Ban ends on political demonstrations in the London area.
Mr. Roy Hattersley, Prices Secretary, addresses public meeting in Epsom and Ewell by-election.
Glynn Grammar School, Epsom, 8 p.m.
European League for Economic Co-operation seminar on Direct Elections to the European Parliament, Leicester Centre Hotel.
Speakers at Lord's Taverners' spring lunch, Cafe Royal, W.1, include Mr. Denis Healey, Chancellor of the Exchequer.
Sir Peter Vamerck, Lord Mayor of London, and his Sheriffs attend

Woolnoth Society banquet, Mansel House, E.4.
Final day of Institute of Grocery Distribution convention, Brighton.
Exhibition for Sub-contracting Industries opens, National Exhibition Centre, Birmingham (until April 28).
International Fire, Security and Safety Exhibition opens, Olympia (until April 28).
PARLIAMENTARY BUSINESS
House of Commons: Nuclear Safeguards Bill and Electricity (Finance) Bill, second readings.
House of Lords: Scotland Bill, committee.
COMPANY RESULT
Simon Engineering (full year).

COMPANY MEETINGS
See Week's Financial Diary on page 39.
OPERA
Royal Opera production of Otello, Covent Garden, W.C.2, 7 p.m.
BALLET
Sadler's Wells Royal Ballet dance Summerdance, and The Two Pigeons, Sadler's Wells Theatre, E.C.1, 7.30 p.m.
MUSIC
Deborah Overbeck (piano) in recital of works by Mozart and Schumann, St. Lawrence Jewry next Guildhall, E.C.2, 1 p.m.
Pianos, Sadler's Wells Theatre, E.C.1, 7.30 p.m.
Shu-Ching Wu (piano) in programme of Stamitz, Britten, Haller, and Brahms, Wigmore Hall, W.1, 7.30 p.m.



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COMPANY NEWS

General Accident hopes for an advance with better underwriting

GIVEN AN increase in its worldwide investment income, an improvement on the overall 1977 performance is hoped for in the current year at General Accident Fire and Life Assurance Corporation.

Mr. Hervey Stuart Black, the chairman, tells members that, despite exceptionally severe weather in the early months of the year, both in this country and in the U.S., from which the insurance industry is bound to suffer, the directors are hopeful of better worldwide underwriting results in 1978.

Underwriting in the U.S. is anticipated to move into profit for the first time since 1972, providing there is no substantial windstorm losses.

However, in those territories which showed the best results in 1977 some severe competition and rate cutting are again emerging. There are few signs of encouragement in Europe, and the U.K. is problematical, he states.

The recent 9 per cent. increase in motor rates will help but the householders account continues to be unfavourable.

The motor business in all European areas is unprofitable and improvement is difficult to achieve while governments are unwilling to allow adequate rates to be introduced, he comments.

For 1977, with a reduction in underwriting losses from £17.63m. to £9.3m., taxable profit soared to £70.1m. (£42.8m.)—as reported on March 2. The net dividend is raised to 8.087p (7.23p) per 25p share.

Investments and liquidity, 11.30 a.m.

Higher retained earnings of £34.43m. (£18.34m.) lifted the total surplus to £412m. representing 61 per cent of 1977 premium income (£68.3m.).

The directors consider that the proposed supplementary statement to the Hyde Guidelines on current cost accounting does not adequately reflect the impact of inflation on insurance company results and the company has not yet adopted the guidelines, he says.

Referring to the company's recent payment to the Government, he says that he intends to continue to try to persuade the Government that the director not only thought it was within the guidelines, but that they were right in so thinking and that it has not added to premiums and is, therefore, not increasing inflationary pressure.

With a turnover from a £1m. loss to a surplus of £11m. on fire and accident underwriting and investment income up at £33.2m. (£46.7m.) taxable profit was expanded to £57.2m. (£37.8m.) in 1977 as reported on April 6.

The net dividend is raised to 20.134p (18.18p) per £1 share. Investments and net liquid funds at year-end were £81.4m. (£82.0m.).

The group maintained its policy of selective investment in properties during the year and the purchase, for £25.8m., of 11 properties from Rank Organisation was completed in the early months of 1978.

The chairman says the company is now seeing the benefits of progressively increasing the proportion of funds committed to real estate. About 20 per cent of its investments are held in property and present and potential capacity for growth in value is a vital element in sustaining the company's asset base in real terms.

A revaluation of the general fund properties at December 31 showed a surplus of £68m. over book values.

Touche Ross and Co., who have been joint auditors with Deloitte and Co., since the company's incorporation in 1959 have agreed not to seek reappointment to facilitate rationalisation of the group's audit arrangements.

Lord Aldington warns that though the trends in consumer protection are well meant, they involve increased costs which in the long term consumers themselves have to bear. If the search for the best is pushed too far or too fast, it could make insurance too expensive.

Sun Alliance shows healthy solvency

THE NEW YEAR has started with a healthy solvency margin for Sun Alliance and London Insurance Lord Aldington, the chairman, tells members. Taking assets at market value the margin increased during 1977 from 62 per cent to 79 per cent on higher premium income.

The home motor account has achieved some growth in income despite intense competition, and a small surplus was earned last year but the marked increase in the frequency of accidents is a cause for concern, he comments.

Referring to the company's recent payment to the Government, he says that he intends to continue to try to persuade the Government that the director not only thought it was within the guidelines, but that they were right in so thinking and that it has not added to premiums and is, therefore, not increasing inflationary pressure.

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Wilmot Breeden looking to higher second half margins

IN HIS annual statement Mr. David Breeden, the chairman of Wilmot Breeden (Holdings) says that the group is reacting quickly and positively to come to terms with lower demand in some operating companies and most of the costs of redundancies and reorganisation will have to be absorbed in the first half of the current year.

Thereafter margins should rise progressively if demand does not fall below present levels. The outlook in France remains good, he adds.

Capital expenditure will continue at a high level in 1978, £4.2m. to be spent worldwide. Spending is expected to fall in 1979.

As reported on April 13, pre-tax profits fell from £6.21m. to £3.88m. in 1977 on turnover of £90.15m. (£82.35m.).

If the proposals on inflation accounting had been adopted profits of some £3m. would have been indicated.

The accounts show a decrease in liquidity of £1.7m. (£20,000). The chairman says that some of the events of 1977 have carried over into 1978. The strike at one of the Speke plants of British Leyland, and the decision to close it, have had and will continue to have an effect on the profitability of the bumper manufacturing plant in Birmingham, and the position has been further aggravated by the low current rate of production of several models.

Action is being taken to reduce operating costs in line with the expected level of demand, and the effect will be seen progressively throughout the year. The group will begin to reap the full benefit of the complex factory reorganisation embarked upon three years ago, when the mechanisms operation will be contained for the first time on a single major site.

In spite of the difficult trading conditions in Australia, a profit was made and the steps taken to diversify into marine components and factoring, have afforded some protection from the slump in car production. Here again, major economies will have to be made which are not likely to show in the results until the last quarter of the year.

The other investment in high technology, Thor Cryogenics, is achieving a high rate of growth. Sales in 1977 were 42 per cent greater than for 1976, and 68 per cent, were for exports. Thor and Trufo are now regarded as being more important than their relationship with the group might suggest. They are giving to the group an insight into the changes in technology which might affect some of its traditional products and investments, and by so doing generate some growth and improve trading in the second half.

No provision has been made for any contingent liability in respect of capital gains or other tax that would arise in the unlikely event of land and buildings being sold. The directors add that if such a sale occurred at the balance sheet valuation, they are advised that this liability would not exceed £30m.

The accounts show a breakdown of the group's properties in the U.K. and overseas as at December 31, 1977: Meeting, Savoy Hotel, WC, May 17, 20 p.m.

Proceedings instituted in France against the holding company and one of its subsidiaries arising out of alleged breaches of contract are continuing to be vigorously contested say the directors, as the holding company has been advised that it has good defences to the outstanding claims. Although some of the claims have been, steadily resisted, some have not yet been heard by the French Courts and others are subject to appeal.

At the year-end secured loans of £18.0m. (£18.8m.), which comprises assets at valuation of £17.51m. (£18.64m.) and at cost of £16.46m. (£19.99m.).

The increase in total property assets for disposal of £18.0m. (£18.8m.), which comprises assets at valuation of £17.51m. (£18.64m.) and at cost of £16.46m. (£19.99m.).

On CCA basis, profit was £3.7m. after depreciation of £150,000 and cost of sales of £113,000, less a £265,000 gearing, to be £113,000.

At the year-end, there was a decrease in net liquid funds of £4.2m. (£3.08m.). The ultimate holding company of Cape is Charter Consolidated.

As reported on April 4, reflecting a sharp reduction in contribution from the group's mining division, caused by weakening demand for asbestos fibre, pre-tax profits fell by 17 per cent from a peak of £14.2m. to £11.8m. on turnover of £133.11m. (£135.37m.).

The dividend is stepped up from £4.74p to a maximum permitted 8.20p with a final of 5.30p net per 25p share. Dividend is paid in the U.K. during 1977, both the building and insulation division and the automotive and engineering division made further advances in sales and profits. Despite the forecast reduction in profits in South Africa, the chairman says that a restoration towards the levels of earlier years is expected by 1979.

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Slough Estates now seeking expansion

THE consolidation policy of the past few years has left Slough Estates in a stronger position than ever, says Mr. Nigel Mobbs, the chairman, in his annual statement.

Members are told that the company made new acquisitions in Germany, Australia and the U.S. during 1977 and world wide it built up a portfolio of 11,000 square feet of new industrial and commercial space.

The company is now actively assessing further opportunities for profitable expansion to meet anticipated demands wherever it operates, states Mr. Mobbs.

He is confident that 1978 group results will exceed those for the previous year, although warns that the extent of the excess will be dependent on the successful leasing or disposal of two office blocks at Sheffield and Brussels.

As reported on March 30, pre-tax profit expanded from £6,000 to £6,970 for 1977. Earnings were up at 4.82p (3.57p) per 25p share and the dividend lifted to 2.263p (1.84p).

On CCA basis, profit was £3.7m. after depreciation of £150,000 and cost of sales of £113,000, less a £265,000 gearing, to be £113,000.

At the year-end, there was a decrease in net liquid funds of £4.2m. (£3.08m.). The ultimate holding company of Cape is Charter Consolidated.

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Ash & Lacy plans £3m. investment

TRADING RESULTS for the first quarter of the current year at Ash and Lacy show a substantial improvement and there has been considerable reduction in interest costs, Mr. Fane Vernon, the chairman, tells members. The company plans to invest about £3m. in plant and buildings during 1978 and 1979.

As reported on April 4, for 1977, external sales were almost unchanged at £24.6m. (£24m.) but taxable profit was down from £1.7m. to £1.4m. reflecting considerably reduced margins. The net dividend is stepped up to 6.24p (5.98p).

Net

HOME NEWS

Scrap metal merchants 'face gloomy future'

FINANCIAL TIMES REPORTER

BRITAIN'S scrap metal merchants face a gloomy future, according to a new survey of the industry.

Iron and steel scrap prices are unlikely to rise much this year, after their recent sharp advance, and merchants might run into export problems—particularly in Spain—Jordan, Dataquest, the company information service, says.

Jordan warns that casualties might occur soon among larger companies on the non-ferrous side, as their wage and plant costs reach unacceptable levels.

Mr. Roger Coghill, author of the survey, said yesterday: "The British Steel Corporation, as the biggest steel scrap user in the U.K., must adopt a more sympathetic attitude towards scrap merchants."

The sharp rise in iron and steel scrap prices this year to £30 a tonne was a technical movement and had nothing to do with demand, the survey says.

A further rise over £35 a tonne will be surprising. The survey rules out a jump to 1976 levels of £45.

Prices will not firm up because scrap stockpiles are still very high, and demand, which has already been hit in the last three months, will suffer still further from the steel plant closures planned by BSC.

The Spanish market for scrap, which last year took more than 50 per cent of Britain's iron and steel scrap sales overseas, might

be less buoyant in future, Jordan warns.

A fall in scrap buying prices is expected if the Spanish application to join the Common Market is successful, because the country will then come into line with the EEC pricing structure.

The attractions of exporting scrap might be far less in the future, because differences between U.K. and Continental prices are narrowing. The liberalisation of exports from the middle of last year saved the industry, according to the survey.

Only mildly better trading conditions are expected in the next 12 months, and even these depend on Government willingness to preserve the industry, according to Jordan.

Ferrous scrap merchants have also suffered from changes introduced by BSC in the supply routes to the corporation: its erratic buying pattern which led to a seven-fold jump in scrap imports in 1976, and the series of rapid price cuts which BSC introduced in the mid-seventies.

The Scrap Processing Industry, Jordan Dataquest, Jordan House, 47, Brunswick Place, London, N.1. 280.

Brokers fear threat

POST-BUDGET doubts over the balance of payments and the possibility of public borrowing demand "crowding out" private sector investment are expressed by the brokers. De Zoete and Bevan, and by the Amex Bank, the international merchant banking arm of the American Express group.

The broking firm warns that the disappointing March trade figures could signal the beginning of a cyclical deterioration in the current account, greater than the decline indicated in the Treasury's latest forecasts.

It argues that the Treasury's assumption of a rapid improvement in invisible exports appears unlikely.

Its other assumption — of a relatively modest improvement in private-sector demand — is based on the expectation of modest increases in real incomes during the first half of next year and the belief that consumer priorities will favour savings rather than spending.

An article in the Amex Bank Review says that the power of a small country like the U.K. to take unilateral retaliatory action should not be overestimated.

Britain could not benefit — as for instance could the West Germans — by a continuing surge of international funds seeking to diversify away from the dollar.

APPOINTMENTS
R. Clarke heads Commission for New Towns

Mr. Robin Clarke has been appointed chief executive of the COMMISSION FOR THE NEW TOWNS in succession to Mr. Malcolm McKenzie, who retired on June 28. Mr. Clarke has been the Commission's manager at Crawley since 1962. Between 1948 and 1962 he served with Crawley Development Corporation.

Mr. Robin Leigh-Pemberton, chairman, National Westminster Bank Group, has been elected chairman of the ARTHRITIS AND RHEUMATISM COUNCIL. He succeeds Lord Porritt, who held the dual posts of chairman and president of the Council, and who now remains president.

Mr. G. H. Lidstone has been appointed executive vice-chairman, and Mr. M. Heathcote Amory has joined the Board of AIR WEST, the new airline subsidiary of Westward Television. Mr. Lidstone is vice-chairman of Westward Television, and Mr. Heathcote Amory is a director.

Sir John Tiney will retire from the partnership of TILNEY AND CO. on April 30. Sir John, who became an associate member in 1932 and a partner in 1933, has agreed to become an associate member and consultant to the partnership, which will continue under its present title.

Mrs. Pauline Luff has been appointed a director of OVEY PUBLISHING, the Solicitors' Law group's professional books and legal forms publishing company. Previously an executive manager of the firm, Mrs. Luff joined Ovey in 1973 as an editor in the law forms division.

Richard & Wallington Industries Limited

W. R. Richards, A.I.O.B., reports —

	1977	1976
Group Turnover	£2,441	£3,787
Group Trading Profit	2,685	1,811
Basic Earnings per share	16.79p	10.37p
Ordinary dividends paid and proposed	4.5124p	4.04p

Crane Hire, the backbone of our business, has been trading in markets that have been very depressed but an overall improvement in performance in this area is evident and the condition of our fleet and strength of our management team and workforce have never been better.

The Group's London and Home Counties crane hire organisation and tower crane distribution franchise, have reversed considerable losses in 1976, to modest profits last year, despite the markets they serve remaining at a low level of activity.

The new joint venture manufacturing companies, Cosmos Crane Company Limited and Rothe Erde (Great Britain) Limited had their first full year of activity and achieved a good level of profitability.

Overseas activities were disappointing, especially in Indonesia, where a temporary downturn in business was suffered. However a much improved performance should be achieved in the current year.

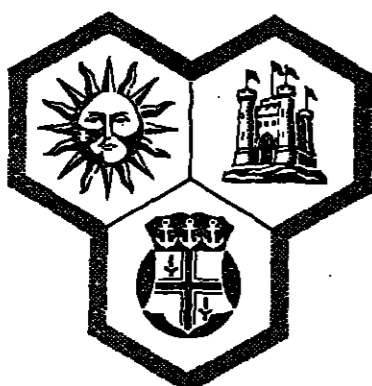
In conjunction with Sime Darby we have established, in the current year, a joint venture crane hire company, Crane Rental & Rigging (H.K.) Limited, which will shortly commence business in Hong Kong to take advantage of the enormous potential which that market offers. Further developments in South East Asia are currently being studied.

Following the example of many other major quoted companies, tax has only been provided where an actual liability can be foreseen within a reasonable period. As a result, some £4.7 million has been transferred to shareholders' funds.

We are dedicated to growth and further expansion will be undertaken as circumstances permit. The current year has begun satisfactorily and bearing unforeseen circumstances a further increase in profits can be expected.

THE NATION'S LEADING CRANE HIRE COMBINE

Export of the Report and Accounts was authorised by the Secretary, Richard & Wallington Industries Ltd., 100, Broad Street, Birmingham B1 2JG.



SUN ALLIANCE INSURANCE GROUP

Highlights from the Statement by the Chairman — Lord Aldington

After the exceptional underwriting loss in 1976 we have returned to an underwriting profit in 1977. But to do only a little better than break even on underwriting on our General business is quite inadequate in a period of still high inflation.

Despite the increasing recognition by many within the industry and by some Governments of the need for a marked improvement in profitability, rates of premium are in many cases lower than those which the risks and the increasing costs of repair require. There is still surplus insurance capacity and excessive competition in many of our markets.

At home we made a modest profit. Fire results were again very good: a small profit emerged on the Motor account and losses in the Accident account were reduced. There was still a considerable loss in the Personal account.

The Overseas account as a whole was in deficit with heavy losses in Germany and Holland. There was a welcome improvement in the United States which brought us nearer to a profit there in general underwriting and good or useful profits were earned in many other important territories.

The improved underwriting results were accompanied by further increases both in investment

income and in the contribution from life business.

Inflation is not caused by insurance companies which are more harmed by it than anyone else. We have welcomed, and we support, the U.K. Government's recent determination to bring it under control. There was no relief in 1977 from the flood of legislation and Government intervention that has been introduced in recent years. Of particular importance has been the agreement between the insurance industry and the Government on Statements of Insurance Practices because of the impracticability of applying the Unfair Contract Terms Act to insurance policies. These statements are a further indication of present trends towards increased consumer protection which, well meant as they are, involve increased costs which in the long term consumers themselves have to bear.

Our profit before taxation amounted to £57.2m compared with £37.8m in 1976 and the Directors have resolved to declare a final dividend of 10.154p per share making a total of 20.154p for the year. I record with sadness the death in August 1977 of Mr. Richard Fleming who had been a Director of The London Assurance since 1937, and was Chairman of the Group from 1968 to 1971. In July we were pleased to welcome to the Board Mr. Derrick Holden-Brown.

Summary of Results

	1977	1976
	£m	£m
Premium Income—Fire, Accident and Marine	465.5	426.1
Underwriting Transfers: Fire and Accident	1.1	-11.0
Marine, Aviation and Transport	—	—
Long-term Insurance Profits	2.7	2.1
Investment Income*	53.2	46.6
Other Income	0.2	0.1
Profit Before Taxation	57.2	37.8
Less: U.K. and Overseas Taxation	25.3	15.9
Profit After Taxation	31.9	21.9
Less: Minority Interests	0.2	0.1
Profit Attributable to Shareholders	31.7	21.8
Cost of Dividends	10.0	8.9
Profit Retained	21.7	12.9
Earnings per Share	64.31p	44.14p

* After deducting loan stock interest.

† Including deferred final dividend 1976.

The Annual General Meeting of Sun Alliance and London Insurance Limited will be held on 24th May 1978 at the Head Office, Bartholomew Lane, London EC2N 2AB.

Conclusion

Although there are some encouraging signs of improvement in Britain's economic outlook there is clearly some way to go before conditions are sufficiently stable for any lasting recovery in business confidence. We intend to maintain our policy of seeking adequate underwriting profits so that we can operate from a position of strength and be ready to take advantage of any worthwhile opportunities that arise. Taking our assets at market value, the Group's solvency margin increased from 62% to 78%. We will not be diverted from the duty of insurers to conduct their underwriting at a profit over the years. During the year a considerable amount of evidence was submitted to Sir Harold Wilson's Committee to Review the Functioning of Financial Institutions. We are pleased to see confirmation of our view that adequate funds are available for industry and that shortage of finance is not a significant factor in Britain's present economic difficulties. It is obviously in our interests to contribute to a healthy economy by investing

in industry, selecting shares in which there are reasonable prospects of an adequate return. Our funds represent the savings of our policyholders and the interests of our shareholders and there is no evidence at all that it will benefit them for the Government or some central agency to take decisions on their investment. Such a concept would do nothing to further our ability to compete in world markets and increase the valuable contribution which our investible earnings make to the British economy or to produce the essential insurance cover on the home market at the lowest possible cost. It has been a difficult year but progress has been made. New problems lie ahead and I am confident that our staff all over the world will continue to respond to the variety of challenges that will inevitably confront them. I thank them for all that they have done.

حزبان الوطن

THE QUEEN'S AWARD FOR EXPORT ACHIEVEMENT

Has been conferred upon ELLIOTT TURBOMACHINERY LIMITED for increasing exports sevenfold in the last three years

Manufacturers of large process compressors and turbines for the oil, gas and petrochemical industries: White Gill hydraulic thrusters, White Major pilot hoists and heat transfer equipment.



Elliott Turbomachinery Limited
40 MEDINA ROAD, COWES,
ISLE OF WIGHT, ENGLAND



QUEEN'S AWARD FOR EXPORT ACHIEVEMENT

WE ARE PROUD TO HAVE THIS CONFERRED UPON US



"MASTER MIND"
THE WORLD'S GREATEST GAME

GAMES, EDUCATIONAL AIDS, ELECTRONIC HOUSEWARES, ADVERTISING MATERIALS EXPORTED TO OVER 100 COUNTRIES

Invicta Plastics Limited, Leicester, England.
Invicta Plastics (U.S.A.) Limited, 200 5th Ave New York, N.Y. 10010, U.S.A.

Invicta Plastics G.m.b.H., Duisburger Str. 22 8500 Nurnberg, B.R.D.

Invicta S.r.l., Via Cerva 22, 20122—Milano, It.

Businessman's Diary

U.K. TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Apr. 30-May 5	Concrete Materials and Techniques Exhibition	Wembley Conf. Centre
Apr. 30-May 5	Int. Machine Tool and Production Eng. Exbn.	Nat. Exbn. Centre, B'ham.
May 2-5	BEAMA Int. Insulation Conf. & Exbn.	Hotel Metropole, Brighton
May 2-5	Int. Cleaning and Maintenance Exhibition	Nat. Exbn. Centre, B'ham.
May 7-10	Incentive Marketing and Sales Promotion Exbn. and Conference	Metropole Centre, Brighton
May 8-12	Int. Welding Engineering Exbn. and Conf.	Harrogate
May 9-12	International Diecasting Exhibition	Olympia
May 9-11	European Computing Congress and Exbn.	Wembley Conf. Centre
May 14-17	Meat Trades Fair	Alexandra Palace
May 15-17	Int. Domestic Electrical Appliances Trade Fair	Nat. Exbn. Centre, B'ham.
May 16-19	Spechbuild (building products) Conf. and Exbn.	Olympia
May 24	Business to Business Exhibition	Horticultural Halls, S.W.1
May 31-June 3	Royal Bath and West Show	Shepton Mallet
June 5-8	British Hospitals Exhibition	Olympia

OVERSEAS TRADE FAIRS AND EXHIBITIONS

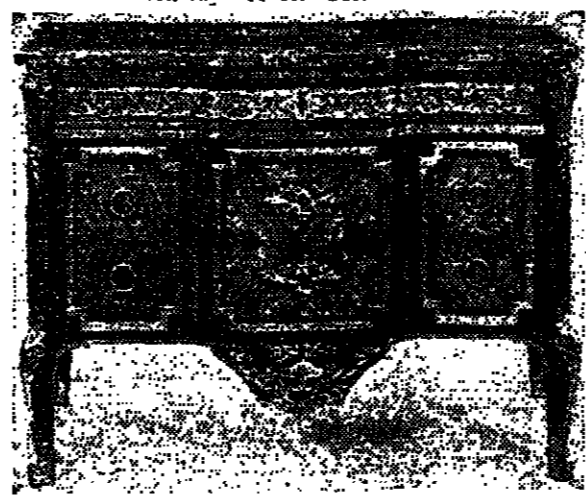
Date	Title	Venue
Apr. 28-May 4	German Agricultural Show	Frankfurt
Apr. 28-May 13	International Trade Fair	Brussels
Apr. 28-May 15	International Paris Trade Fair	Paris
May 6-11	Offshore Technology Conf. and Exbn.	Houston, Texas
May 6-12	Int. Technology Exchange Fair	Utrecht
May 9-11	Compec Europe	Brussels
May 9-14	Int. Surface Treatment and Finishing Exbn.	Paris
May 13-20	Woodworking Machine Exhibition	Milan
May 16-20	Welding Fair	Zagreb
May 18-27	Public Works Exhibition	Paris
June 4-8	Israel Technology Week	Jerusalem

BUSINESS AND MANAGEMENT CONFERENCES

Date	Title	Venue
Apr. 25	ROTE/CBI: Opening an office in Japan	CBI, London
Apr. 26	British Overseas Trade Board: Exporting to Australia	Inn on the Park Hotel, W.1
Apr. 26-27	European Study Conferences: Direction and management of the smaller private company	Kensington Palace Hotel, W.5
Apr. 27	Soc. for Long Range Planning: Introduction to Corporate Planning	SLRP, London
Apr. 27	British Council of Productivity Associations: Provision and disclosure of company information	London Hilton, W.1
Apr. 27	London Business School: Leases and how to value them	Sussex Place, W.1
Apr. 27-28	Council for Energy Studies: World Energy Economics Conference	Inn on the Park, W.1
Apr. 27-28	Oyez: Advertising Association Conference	The Brighton Centre
May 2	CBI/COMET: U.K.-Moroccan trade potential	CBI, London
May 3-6	Institute of Metal Finishing: Annual Technical Conference	Palace Hotel, Torquay
May 4	British Institute of Management: Management of Product Design and Innovation	Royal Lancaster Hotel, W.2
May 6-9	National Chamber of Trade: Annual Conference	Llandudno
May 7-13	Keith Shipton Developments: Risk Management in Practice	Tower Hotel, E.1
May 8-9	Financial Times: The 1978 Euromarketing Conference	Royal Lancaster Hotel, W.2
May 9	AGB Conference Services: Executive Stress	Inst. of Directors, S.W.1
May 9	Oyez: International Transfer Pricing Policies	London Press Centre, E.C.4
May 9-10	Zinc Development Association: Die Casting Conference	London Hilton, W.1
May 9-11	Shirley Institute: Textile Industry—protecting the environment, producer and consumer	Manchester
May 9-12	British Association for Commercial and Industrial Education: Job Analysis	RACIE Train Centre, London
May 10	Oyez: Tax and Property	Hotel Inter-Continental, W.1
May 10-12	Advanced Management Research (AMR): Management Skills for Women	Churchill Hotel, W.1
May 15-16	Financial Times: The North Sea and its Economic Impact	Grosvenor House, W.1
May 16	European Study Conferences: The Finance Bill 1978	Royal Lancaster Hotel, W.2
May 16	Inst. of International Licensing Practitioners: Nuts and bolts of technology transfer	Imperial College, S.W.7
May 17-18	Oyez: Successful accomplishment of giant projects	Hilton Hotel, W.1
May 22-26	Marchmont: International Tax Planning Conf.	Barbadoe
May 24	Imperial College: International Finance	London, S.W.7
May 24	British Institute of Management: Cost savings through materials handling	Tickled Trout Hotel, Preston
May 24-25	Anthony Skinner Management: Improving stock control	Piccadilly Hotel, W.1
May 25-26	European Study Conferences: Double Taxation—taking advantage of international agreements	Old Government House Hotel, Guernsey

GALERIE KOLLER

Rämistr 8 8001 ZURICH
Tel. 01-47 50 40. Telex: 58500.



A Transient Commode, almost undated "Ressource J.H. 1789". Inlaid work of the Royal Chateau de Saint-Louis. The commode is surrounded by a decorative.

IMPORTANT SALES

May 18th through June 3rd, 1978

The property of various owners, including:—
MEUBLES FROM THE ROYAL CHATEAU OF SAINT-LOUIS: A SERIES OF 4 AUBUSSON TAPESTRIES FROM A PATRICIAN HOUSE IN GENEVA; THE ESTATE OF MR. J.P. JUNOT: OVER 300 ARMS AND WEAPONS; A PART OF THE ESTATE OF A WINTERBURY INDUSTRIALIST.
Important Paintings of the 16th and 17th century: Bonin, Corot, Courbet, Degas, Diaz de la Peña, van Dongen, Dufy, Eberle, Cockburn, Ernst, van Gogh, Guttuso, Manet, Matisse, Manheim, Miró, Modigliani, Picasso, Poussin, Polakoff, Renoir, Rouault, Schellman, Schwitters, Spillner, Lillie, Valat, Villon, Vuillard, etc.

Highly important Old Master Pictures: Albrecht, Asseyn, Jan Brueghel the Younger, Cranach the Elder, Dürer, Dufy, El Greco, de Gelder, van Goyen, J. van der Haagen, Horemans, Linsbacht, E. Peeters, P. de Potter, Thomas, de Vadder, A. and P. van der Velde, Vermeer, etc.

Important Collection of Modern Graphic Art and books.
Outstanding French Furniture of the 17th and 18th century, many pieces stamped, European furniture from the Renaissance to the Napoleonic era.
Important Rug and Carpet Collection.
Rare Watches, Clocks, Brackets, Clocks, Brackets and Sculpture, European Porcelain and Pottery, Silver, Miniatures and Gold Boxes.

Highly important Collection of Oriental Works of Art. Far Eastern Ceramics. Over 40 Vintage cars, exhibited May 18th through 25th in the big hall of the "Glan" Shopping Centre.

PREVIEW

May 3rd through May 16th, daily from 10 a.m. to 10 p.m. On Tuesday May 16th, last day of exhibition, from 10 a.m. to 6 p.m. The exhibition remains closed on what Sunday, May 14th, after May 18th and until the day of sale, appointments may be made for private viewing.

Large illustrated catalogues:
Furniture, Arts and Crafts SFR.30
Pictures and Graphic Art SFR.30
Asian works of Art and Asian ceramics SFR.30
Jewels SFR.25
Veteran, Vintage and Classic Cars SFR.15



WE, THE LIMBLESS, LOOK TO YOU FOR HELP

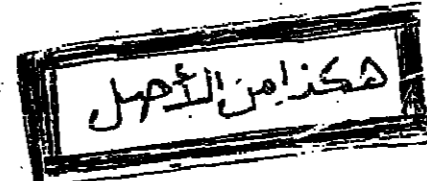
We come from both world wars. We come from Kenya, Malaya, Aden, Cyprus... and from Ulster. From keeping the peace no less than from war we limbless look to you for help.

And you can help, by helping our Association, BLESMA (the British Limbless Ex-Service Men's Association) looks after the limbless from all the Services. It helps, with advice and encouragement, to overcome the shock of losing arms, or legs or an eye. It sees that red-tape does not stand in the way of the right entitlement to pension. And, for severely handicapped and the elderly, it provides Residential Homes where they can live in peace and dignity.

Help BLESMA, please. We need money desperately. And, we promise you, not a penny of it will be wasted.

Donations and information:
Major The Earl of Ancaster, K.C.V.O., T.D., Midland Bank Limited, 60 West Smithfield London EC1A 9DX.

British Limbless Ex-Service Men's Association
"GIVE TO THOSE WHO GAVE—PLEASE"



SENIOR ENGINEERING GROUP LIMITED

Results for 1977

* Turnover up by 23.0% to £51.6m

* Profit before tax up by 12.6% to £5.3m

* Earnings per share up by 12.3%

* Dividend cover 2.9 times

	1977 £000's	1976 £000's	1975 £000's
Turnover	51,629	41,971	34,960
Profit before tax	5,300	4,707	3,817
Finance employed	26,329	24,158	19,574
Dividends per share	1.1671p	1.053p	0.950p

The diversity of the Group's engineering interests spread over several divisions with varied products sold into many different markets has enabled the Group to enjoy many years of uninterrupted growth whereas specialised companies have found it more difficult to weather the recent years of recession. Certain divisions are quietly optimistic for 1978 but in the present fluctuating economic climate it is difficult to forecast the likely profits for those divisions whose products are sold on a short delivery period. Nevertheless the Group is well equipped to take advantage of any improvement in trading conditions and will strive to extract the maximum benefit out of the present depressed situation.

Senior Engineering Group Limited
Senior House, 21 Derby Road, Watford, Herts. WD1 1LT

Pearson Longman

Preliminary Announcement of 1977 Results

	1977	1976
Turnover	£51,629	£41,971
The Financial Times Limited	26,306	23,235
Westminster Press Limited	62,993	53,155
Longman Holdings Limited	35,598	32,466
The Penguin Publishing Company Limited	18,935	18,698
Ladybird Books Limited	3,683	3,536
Inter-company turnover eliminated	(1,109)	(892)
	146,406	130,108
Profit before interest		
The Financial Times Limited	3,378	2,453
Westminster Press Limited	5,970	4,490
Longman Holdings Limited	8,760	8,136
The Penguin Publishing Company Limited	1,679	3,313
Ladybird Books Limited	477	708
Pearson Longman Limited	(49)	(15)
	20,215	19,075
Interest payable less interest receivable	551	931
Profit before taxation		
The company and its subsidiaries	19,664	18,144
Associated companies	1,734	1,730
Profit of the group before taxation	21,398	19,874
Taxation thereon		
The company and its subsidiaries		
— United Kingdom	8,653	7,558
— Overseas	1,404	1,883
Associated companies	10,057	9,441
	833	936
	10,890	10,377
Profit of the group after taxation	10,508	9,497
Profit attributable to minority interests	481	484
Net profit of the year attributable to Pearson Longman Limited before extraordinary items	10,027	9,013
Extraordinary items	56	152
Net surplus including extraordinary items	10,083	9,165
Dividends		
Preference shares		
Ordinary shares		
First interim	1.730	1.750
Final (1976 second interim & final, restated)	4.336	3.665
	5.986	5.415
tax credit to shareholders	3.084	2.831
	9.070	8.246
Surplus retained and added to reserves:		
Capital reserves	236	160
Revenue reserves	7,358	6,751
	7,594	6,911
Earnings per ordinary share (based on profit before extraordinary items but after deducting preference dividends)	24.27p	21.81p

The exchange deficit arising on the annual reconversion of net assets overseas amounting to £629,000 (1976 surplus £383,000) has been transferred direct to reserves.

The directors recommend a final dividend on the ordinary shares of 4.336p per share for the year to 31st December 1977 (1976 second interim and final 3.665p). This dividend will be payable on 12th June 1978 to ordinary shareholders on the register at the close of business on 15th May 1978 and will entitle United Kingdom shareholders to a tax credit of thirty-four sixths of the actual amount received. It will therefore be equivalent to a gross dividend of 5.418p per share making with the interim dividend already paid a total of 9.077p per share (1976 8.246p). This is the maximum permitted under existing regulations.

FT

WP

LONGMAN

PENGUIN

LADYBIRD BOOKS

Dredging a harbour? Let Stevin lend you a helping hand.

Stevin is international. A diversified contractor. An expert at reclaiming land from the sea, dredging and port construction. Doing what Dutchmen have been so good at for centuries - only faster than ever before.

Years of international experience. With all specialists and technical know-how available. Any time. Any place in the world.

Whenever there are big plans for a new harbour, a new bridge, a new airport, a new hospital, pipeline or road, there seems to be always

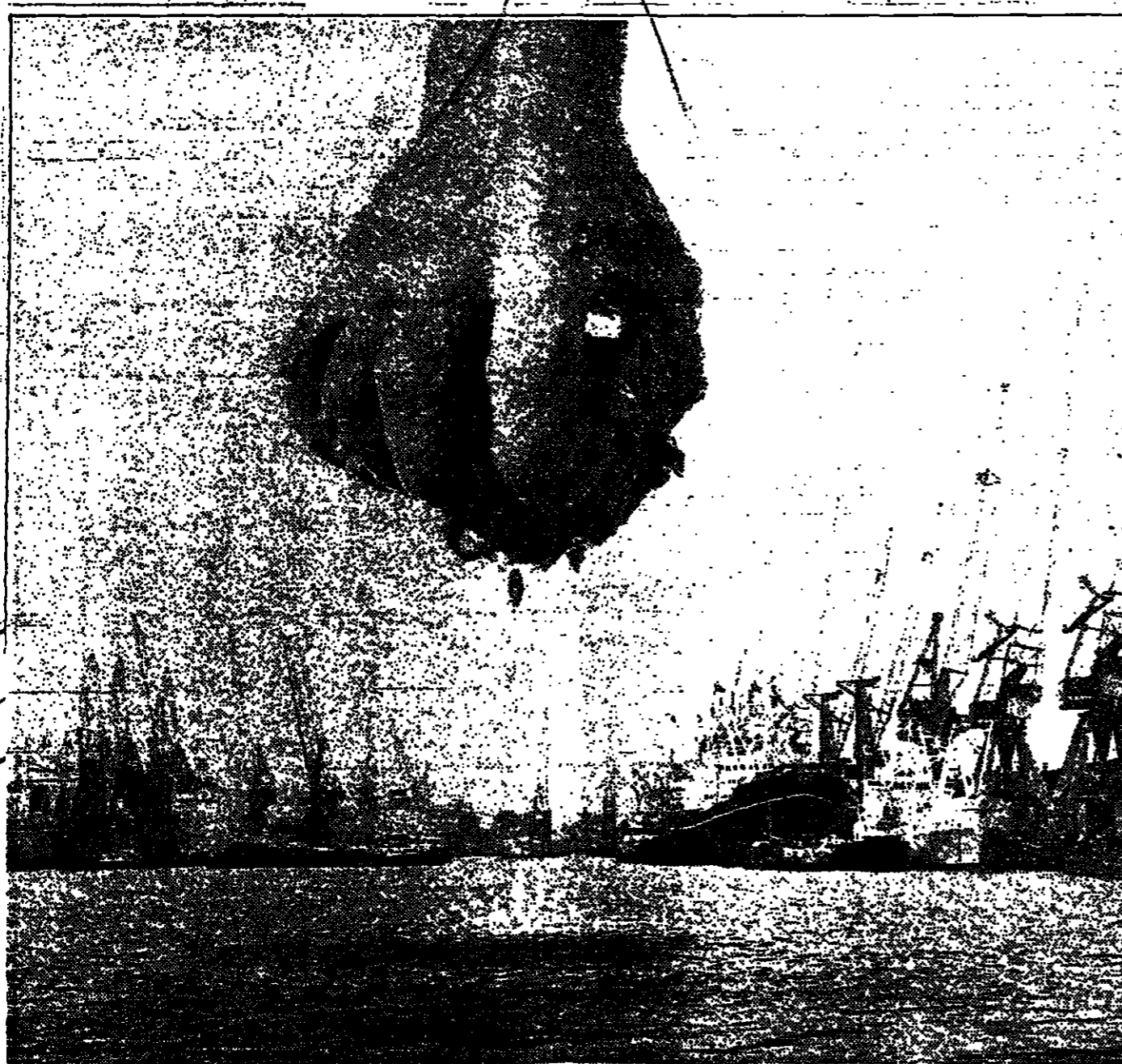
someone who asks: "Why not bring in Stevin?" Giants at home. Growing abroad.

Stevin Group

Dredging and Reclamation
Civil Engineering
Roads and Asphalt
Pipelines
Housing and Construction

The turnover in 1977 amounts to \$ 750 million, of which about 60% has been realized abroad. Stevin has offices in: The Netherlands, U.K., Belgium, W. Germany, France, Antilles, Brazil, Algeria, Gabon, Nigeria, Saudi Arabia, Bahrain, Qatar, U.A.E. Emirates, Oman, Malaysia, Indonesia and Australia.

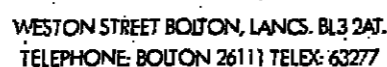
Stevin Group N.V. Kaap Hoofdreef 66, P.O. Box 9006, Utrecht, The Netherlands. Telex: stevin 40649, tel. 030 - 62 05 89.



Elliott



invicta
MIND
GREATTEST



March 29, 1978

مكذّاب من الأهل

OVERSEAS MARKETS

EUROBONDS

High quality shift boosts market

BY FRANCIS GHILLES

THE SHIFT of high quality borrowers and their managers away from the Deutschmark and into the dollar sector suggests that a renewed mood of confidence is being instilled in the market. New paper on offer of the quality witnessed in the past ten days has not been seen in the market for a long time and investors were duly keen.

The offering of notes for Beatrice Foods Overseas Finance NV was closed four days ahead of schedule. Despite terms being tight, investor demand from continental Europe, Switzerland in particular, was reported to be very strong.

The renewed strength of the dollar sector is also based on currency and interest rate factors. The divergence in interest rate on the dollar and the two strong currencies, the Deutschmark and the yen has never been wider and this has convinced many in the market that the dollar has reached its bottom. The only way for the dollar, they argue, is up and hence the acceptance of good quality names even when they carry tight conditions: the gain potential on the currency could be substantial.

On present trends the achievement of the Deutschmark during the first quarter of this year, when it accounted for a greater volume of new issues than the dollar 45.2 per cent, against 44.9 per cent, is unlikely to be repeated in the second quarter.

The renewed strength of the dollar sector enabled Deutsche Bank to come forward with a private placement for one of the blue chip names of German industry, BASF, on terms which were also very tight.

Where the CNT issue is concerned, the maturity is a very long one but a generous coupon should ensure good reception.

The CNT bond was not altogether unexpected. It seems that just over a week ago, when the United Kingdom announced its decision to launch its first ever Yankee bond, the Caisse Nationale des Telecommunications was on the verge of filling a \$75m. bond with the Securities and Exchange Commission in New York. On learning this, the French decided to pull back. Fear of the market is New York getting congested and also, may be, concern they might obtain slightly less good terms than the New York combined to make such a move unavoidable.

The reasons why the United Kingdom bond might well have met of the Deutschmark during

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with strong demand. The last two dollar bonds for Norway were arranged by Hambros.

The secondary market was in fine fettle most of the week although the overall rise in prices was small. But there was good two-way trading most of the week with turnover higher than it has been recently.

The floating rate note sector was firm and Credit Commercial de France was able to increase its float from an initial \$35m. because of strong demand.

The Deutschmark sector of the market was in a lull.

851-861) but better known names are also putting in a weak performance. P. K. Banker which was priced at 99 was being quoted in early aftermarket trading at 97.

The weakness of some of the issues for developing countries in recent weeks is all the more interesting as recent figures suggest that such borrowers floated a greater volume of issues denominated in Deutschmark than in dollars recently (\$580m. work in Deutschmark equivalent as against \$582m. worth in dollars in the 12 months to the end of September 1977).

Some issues, however, are meeting with strong demand. This is in particular the case with the Sankyo Convertible which will not be increased. Short-term paper is also attractive to investors. The bad shape of most of the market makes it highly unlikely that Payerische Vereinsbank will bring Nacional Financiera to the market at present and certainly not on the terms indicated a month ago.

The only new issue announced over the week-end was the DM125m. for Den Norske Industri.

Lead manager is West-Stockholm and the bonds will have a maturity of 12 years and an indicated coupon of 8 1/2 per cent.

BONDS INDEX AND YIELD

	April 21	April 14	High 1978	Low 1978
Medium term	94.32	7.81	97.45	7.34
Long term	94.03	8.32	97.45	7.34

EUROBOND TURNOVER

	last week	previous week	last week	previous week
U.S. dollar bonds	1,251	1,251	488.1	316.7
Other bonds	296.1	476.7		

Rises and Falls

	April 21	April 14	High 1978	Low 1978
U.S. dollar bonds	1,251	1,251	488.1	316.7
Other bonds	296.1	476.7		

NEW YORK - DOW JONES

	April 21	April 14	High 1978	Low 1978
Industrial	912.80	914.54	918.04	912.12
Transport	912.80	914.54	918.04	912.12

STANDARD AND POORS

	April 21	April 14	High 1978	Low 1978
Industrial	105.82	104.16	106.50	105.12
Composite	94.34	94.54	95.45	94.46

OVERSEAS SHARE INFORMATION

	April 21	April 14	High 1978	Low 1978
Industrial	105.82	104.16	106.50	105.12
Composite	94.34	94.54	95.45	94.46

NEW YORK

	April 21	April 14	High 1978	Low 1978
Industrial	105.82	104.16	106.50	105.12
Composite	94.34	94.54	95.45	94.46

STOCK

	April 21	April 14	High 1978	Low 1978
Industrial	105.82	104.16	106.50	105.12
Composite	94.34	94.54	95.45	94.46

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Composite	94.34	94.54	95.45	94.46

GERMANY

	April 21	April 14	High 1978	Low 1978
Industrial	105.82	104.16	106.50	105.12
Composite	94.34	94.54	95.45	94.46

JOHANNESBURG

	April 21	April 14	High 1978	Low 1978
Industrial	105.82	104.16	106.50	105.12
Composite	94.34	94.54	95.45	94.46

AUSTRALIA

	April 21	April 14	High 1978	Low 1978
Industrial	105.82	104.16	106.50	105.12
Composite	94.34	94.54	95.45	94.46

PARIS

	April 21	April 14	High 1978	Low 1978
Industrial	105.82	104.16	106.50	105.12
Composite	94.34	94.54	95.45	94.46

VIENNA

	April 21	April 14	High 1978	Low 1978
Industrial	105.82	104.16	106.50	105.12
Composite	94.34	94.54	95.45	94.46

BRASIL

	April 21	April 14	High 1978	Low 1978
Industrial	105.82	104.16	106.50	105.12
Composite	94.34	94.54	95.45	94.46

OSLO

	April 21	April 14	High 1978	Low 1978
Industrial	105.82	104.16	106.50	105.12
Composite	94.34	94.54	95.45	94.46

SPAIN

	April 21	April 14	High 1978	Low 1978
Industrial	105.82	104.16	106.50	105.12
Composite	94.34	94.54	95.45	94.46

SWITZERLAND

	April 21	April 14	High 1978	Low 1978
Industrial	105.82	104.16	106.50	105.12
Composite	94.34	94.54	95.45	94.46

STOCKHOLM

	April 21	April 14	High 1978	Low 1978
Industrial	105.82	104.16	106.50	105.12
Composite	94.34	94.54	95.45	94.46

BRUSSELS/LUXEMBOURG

OFFSHORE AND OVERSEAS FUNDS

[illegible]

St. Louis 1st, 2d, 3d, 4th, 5th, 6th, 7th, 8th, 9th, 10th, 11th, 12th, 13th, 14th, 15th, 16th, 17th, 18th, 19th, 20th, 21st, 22nd, 23rd, 24th, 25th, 26th, 27th, 28th, 29th, 30th, 31st, 32nd, 33rd, 34th, 35th, 36th, 37th, 38th, 39th, 40th, 41st, 42nd, 43rd, 44th, 45th, 46th, 47th, 48th, 49th, 50th, 51st, 52nd, 53rd, 54th, 55th, 56th, 57th, 58th, 59th, 60th, 61st, 62nd, 63rd, 64th, 65th, 66th, 67th, 68th, 69th, 70th, 71st, 72nd, 73rd, 74th, 75th, 76th, 77th, 78th, 79th, 80th, 81st, 82nd, 83rd, 84th, 85th, 86th, 87th, 88th, 89th, 90th, 91st, 92nd, 93rd, 94th, 95th, 96th, 97th, 98th, 99th, 100th, 101st, 102nd, 103rd, 104th, 105th, 106th, 107th, 108th, 109th, 110th, 111th, 112th, 113th, 114th, 115th, 116th, 117th, 118th, 119th, 120th, 121st, 122nd, 123rd, 124th, 125th, 126th, 127th, 128th, 129th, 130th, 131st, 132nd, 133rd, 134th, 135th, 136th, 137th, 138th, 139th, 140th, 141st, 142nd, 143rd, 144th, 145th, 146th, 147th, 148th, 149th, 150th, 151st, 152nd, 153rd, 154th, 155th, 156th, 157th, 158th, 159th, 160th, 161st, 162nd, 163rd, 164th, 165th, 166th, 167th, 168th, 169th, 170th, 171st, 172nd, 173rd, 174th, 175th, 176th, 177th, 178th, 179th, 180th, 181st, 182nd, 183rd, 184th, 185th, 186th, 187th, 188th, 189th, 190th, 191st, 192nd, 193rd, 194th, 195th, 196th, 197th, 198th, 199th, 200th, 201st, 202nd, 203rd, 204th, 205th, 206th, 207th, 208th, 209th, 210th, 211st, 212nd, 213th, 214th, 215th, 216th, 217th, 218th, 219th, 220th, 221st, 222nd, 223rd, 224th, 225th, 226th, 227th, 228th, 229th, 230th, 231st, 232nd, 233rd, 234th, 235th, 236th, 237th, 238th, 239th, 240th, 241st, 242nd, 243rd, 244th, 245th, 246th, 247th, 248th, 249th, 250th, 251st, 252nd, 253rd, 254th, 255th, 256th, 257th, 258th, 259th, 260th, 261st, 262nd, 263rd, 264th, 265th, 266th, 267th, 268th, 269th, 270th, 271st, 272nd, 273rd, 274th, 275th, 276th, 277th, 278th, 279th, 280th, 281st, 282nd, 283rd, 284th, 285th, 286th, 287th, 288th, 289th, 290th, 291st, 292nd, 293rd, 294th, 295th, 296th, 297th, 298th, 299th, 300th, 301st, 302nd, 303rd, 304th, 305th, 306th, 307th, 308th, 309th, 310th, 311st, 312nd, 313th, 314th, 315th, 316th, 317th, 318th, 319th, 320th, 321st, 322nd, 323rd, 324th, 325th, 326th, 327th, 328th, 329th, 330th, 331st, 332nd, 333rd, 334th, 335th, 336th, 337th, 338th, 339th, 340th, 341st, 342nd, 343rd, 344th, 345th, 346th, 347th, 348th, 349th, 350th, 351st, 352nd, 353rd, 354th, 355th, 356th, 357th, 358th, 359th, 360th, 361st, 362nd, 363rd, 364th, 365th, 366th, 367th, 368th, 369th, 370th, 371st, 372nd, 373rd, 374th, 375th, 376th, 377th, 378th, 379th, 380th, 381st, 382nd, 383rd, 384th, 385th, 386th, 387th, 388th, 389th, 390th, 391st, 392nd, 393rd, 394th, 395th, 396th, 397th, 398th, 399th, 400th, 401st, 402nd, 403rd, 404th, 405th, 406th, 407th, 408th, 409th, 410th, 411st, 412nd, 413th, 414th, 415th, 416th, 417th, 418th, 419th, 420th, 421st, 422nd, 423rd, 424th, 425th, 426th, 427th, 428th, 429th, 430th, 431st, 432nd, 433rd, 434th, 435th, 436th, 437th, 438th, 439th, 440th, 441st, 442nd, 443rd, 444th, 445th, 446th, 447th, 448th, 449th, 450th, 451st, 452nd, 453rd, 454th, 455th, 456th, 457th, 458th, 459th, 460th, 461st, 462nd, 463rd, 464th, 465th, 466th, 467th, 468th, 469th, 470th, 471st, 472nd, 473rd, 474th, 475th, 476th, 477th, 478th, 479th, 480th, 481st, 482nd, 483rd, 484th, 485th, 486th, 487th, 488th, 489th, 490th, 491st, 492nd, 493rd, 494th, 495th, 496th, 497th, 498th, 499th, 500th, 501st, 502nd, 503rd, 504th, 505th, 506th, 507th, 508th, 509th, 510th, 511st, 512nd, 513th, 514th, 515th, 516th, 517th, 518th, 519th, 520th, 521st, 522nd, 523rd, 524th, 525th, 526th, 527th, 528th, 529th, 530th, 531st, 532nd, 533rd, 534th, 535th, 536th, 537th, 538th, 539th, 540th, 541st, 542nd, 543rd, 544th, 545th, 546th, 547th, 548th, 549th, 550th, 551st, 552nd, 553rd, 554th, 555th, 556th, 557th, 558th, 559th, 560th, 561st, 562nd, 563rd, 564th, 565th, 566th, 567th, 568th, 569th, 570th, 571st, 572nd, 573rd, 574th, 575th, 576th, 577th, 578th, 579th, 580th, 581st, 582nd, 583rd, 584th, 585th, 586th, 587th, 588th, 589th, 590th, 591st, 592nd, 593rd, 594th, 595th, 596th, 597th, 598th, 599th, 600th, 601st, 602nd, 603rd, 604th, 605th, 606th, 607th, 608th, 609th, 610th, 611st, 612nd, 613th, 614th, 615th, 616th, 617th, 618th, 619th, 620th, 621st, 622nd, 623rd, 624th, 625th, 626th, 627th, 628th, 629th, 630th, 631st, 632nd, 633rd, 634th, 635th, 636th, 637th, 638th, 639th, 640th, 641st, 642nd, 643rd, 644th, 645th, 646th, 647th, 648th, 649th, 650th, 651st, 652nd, 653rd, 654th, 655th, 656th, 657th, 658th, 659th, 660th, 661st, 662nd, 663rd, 664th, 665th, 666th, 667th, 668th, 669th, 670th, 671st, 672nd, 673rd, 674th, 675th, 676th, 677th, 678th, 679th, 680th, 681st, 682nd, 683rd, 684th, 685th, 686th, 687th, 688th, 689th, 690th, 691st, 692nd, 693rd, 694th, 695th, 696th, 697th, 698th, 6

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219.68	220.24	217.45
5.72	6.91	6.76
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203.21	204.44	201.87

214.57	214.28	193.40
5.83	5.84	5.71
7.80	7.81	9.18
198.87	198.45	177.41

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St & Gen	261.1	295.8	-34.7
Ex Fd	133.0	199.6	-66.6
Fund	107.8	214.6	-106.8
Yds Fd	53.3	56.6	-3.3

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1.00	Pearl Growth Fd.
4.08	Accum Units
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7.10	Pearl Unit Trst.
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FINANCIAL TIMES

Monday April 24 1978

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Shipyard cuts plan runs into trouble

By Ian Hargreaves and Guy de Jonquieres

THE EEC's efforts to hammer out a common policy for dealing with the crisis in shipbuilding industry have run into serious difficulties as a result of divisions between governments.

These differences are now so deep that the Commission believes it may have to abandon its plans for a programme of co-ordinated capacity reductions and restructuring of the industry. A group of industry officials from the Nine met in Brussels last week to consider the Commission's proposals, which were presented at the end of last year by Viscount Etienne Davignon, the industry Commissioner. This plan envisaged a 46 per cent reduction in capacity inside four years to give the Community's industry 48,000 fewer jobs and an output of only 5.4m. gross tonnes per year.

At last week's meeting the Davignon plan received support in principle from France, Denmark and the Netherlands, but was sharply attacked by Britain and West Germany.

Britain has argued that the Commission's approach could prove to be unnecessarily tough and inflexible should the market prove to be less severe than Brussels forecasts.

The Commission, however, supported by the Netherlands, is tending to revise downwards its already gloomy predictions of the industry's output in 1980-81 rather than the reverse.

Divided
The Commission has also noted Japan's bitter criticism at last week's OECD shipbuilding talks of the European yard's plan to produce effective restructuring plans. The Japanese are likely to renew their criticism at this latest evidence of disarray.

Apart from fundamental disagreement over the idea of targets for the industry member States are also divided over other aspects of the Commission's approach.

The Commission's original suggestion of a high-level committee within the Community to direct the shipbuilding plan has been brusquely dismissed by most countries, although there is agreement that some sort of information-gathering body would be useful.

Member States and their shipbuilders have complained that the Davignon plan was constructed with too little research and not much understanding of the industry.

Even though it is likely that such an advisory body will eventually emerge, member States are still disagreed about the level at which it should operate and, in particular, some are strongly opposed to the idea of it being chaired by Viscount Davignon.

The plan is due to be discussed by Community Foreign Ministers in June but it is feared that the extent of the divisions so far expressed may make it impossible for Ministers to do anything but defer a decision indefinitely.

Weather

U.K. TO-DAY
DRY, sunny spells in most areas, London, Midlands.
Cent. N. England
S.E. and Cent. S. England
Dry, sunny spells.
E. Anglia, E. and N.E. England.
Borders, Edinburgh, Dundee
Dull, becoming brighter inland with sunny spells.
Channel, S.W. England,
S. Wales
Bright at first, cloud and rain spreading slowly from S.W.
N. Wales, N.W. England, Lakes,
S.W. Scotland, Glasgow,
N.W. Scotland, N. Ireland
Dry, sunny spells, W. Wm.
L. of Man
Dry, sunny spells.
Aberdeen, Inver, E. Scotland
Cloudy, rain, drizzle, cold.
Orkney, Shetland
Sunny intervals, showers.
Outlook: Mostly dry.

BUSINESS CENTRES

City	Yield	City	Yield
Alexandria	22.72	London	10.00
Amman	14.00	Madrid	10.00
Athens	15.00	Manchester	10.00
Bahra	22.00	Milwaukee	10.00
Barcelona	16.00	Mexico City	10.00
Bombay	19.00	Montreal	10.00
Buenos Aires	15.00	Moscow	10.00
Calcutta	15.00	Nairobi	10.00
Cairo	15.00	Paris	10.00
Cardiff	15.00	Perth	10.00
Chennai	15.00	Port of Spain	10.00
Columbo	15.00	Rangoon	10.00
Dakar	15.00	San Francisco	10.00
Damascus	15.00	Singapore	10.00
Delhi	15.00	Sri Lanka	10.00
Dhaka	15.00	Taipei	10.00
Dublin	15.00	Tokyo	10.00
Edinburgh	15.00	Ulaanbaatar	10.00
Frankfurt	15.00	Yokohama	10.00
Geneva	15.00		
Hong Kong	15.00		
Kuala Lumpur	15.00		
London	15.00		

HOLIDAY RESORTS

City	Yield	City	Yield
Alexandria	22.72	London	10.00
Amman	14.00	Madrid	10.00
Athens	15.00	Manchester	10.00
Bahra	22.00	Milwaukee	10.00
Barcelona	16.00	Mexico City	10.00
Bombay	19.00	Montreal	10.00
Buenos Aires	15.00	Moscow	10.00
Calcutta	15.00	Nairobi	10.00
Cairo	15.00	Paris	10.00
Cardiff	15.00	Perth	10.00
Chennai	15.00	Port of Spain	10.00
Columbo	15.00	Rangoon	10.00
Dakar	15.00	San Francisco	10.00
Damascus	15.00	Singapore	10.00
Delhi	15.00	Sri Lanka	10.00
Dhaka	15.00	Taipei	10.00
Dublin	15.00	Tokyo	10.00
Edinburgh	15.00	Ulaanbaatar	10.00
Frankfurt	15.00	Yokohama	10.00
Geneva	15.00		
Hong Kong	15.00		
Kuala Lumpur	15.00		
London	15.00		

Salisbury plans preconditions for all-party conference

By TONY HAWKINS

RHODESIA'S transitional government is expected to accept this week the Anglo-American invitation to attend an all-party conference on Rhodesia.

However, Salisbury is expected to stipulate preconditions that may make its acceptance academic and symbolic in character.

Salisbury sources suggest that the transitional government will put forward three main provisions.

Sanctions
These are that it attends the conference as an interim government and not as four separate parties; that the March 31 'internal settlement' be regarded as the basic working document rather than the much-rejected Anglo-American Plans; and that the conference be held in Rhodesia or at the Victoria Falls.

Although it may not seem likely in London and Washington, interim government sources see

the decision to attend on Salisbury's terms as something of a concession.

They stressed that anything that could speed the lifting of sanctions and the securing of international recognition must be pursued.

They are far more sceptical of its claims when, at Monday's session, Mr. Andrew Young admitted frankly—and to the evident embarrassment of Mr. Vance and Dr. Owen—that Mr. Mugabe and Mr. Nkomo of the Patriotic Front were fighting for 'personal power' and not for 'liberation'.

Even if the internal and external nationalists could find a formula for a transitional government and free elections—which is what the present dispute is about—there is no evident formula for patching up the simmering enmity between the Shona and Ndebele tribal groups.

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THE LEX COLUMN

Building societies after Grays

There is nothing like a crisis to concentrate the mind and the recent problem of the Grays Building Society fits the bill admirably. Its doors have been closed for over a month now and depositors will probably have to wait at least another month before they can touch their savings. Even at the height of the fringe banking crisis it is difficult to remember a small depositor being treated so badly.

It is already beginning to look as if the Grays debacle could have the same sort of impact on the building society movement as the fringe banking crisis had on the banking community. Already there have been calls for stricter auditing standards, more mergers and the establishment of a permanent protection fund. But the implications of the Grays affair are more wide-ranging, since it raises a number of fundamental questions about the role of the building societies in the financial system. Are they, as their name implies, 'building societies', whose raison d'être is mortgage lending, or are they savings banks?

Originally, it is true, they were 'building' societies in the true sense of the word, formed by small groups of people who clubbed together to build their own homes. Once this had been done, they would themselves use, hence they were known as terminating societies. However, virtually all building societies are now permanently established and while they see the growth in home ownership as their primary objective they have also developed into the largest savings movement in the country.

These are the main points in two further sets of evidence supplied this week-end to the Northfield Committee, which was set up by Mr. John Silkin, Minister of Agriculture to study trends in land ownership.

Farmers fear that the new, big-spending institutions are driving traditional landowners off their holdings. There has also been concern about the recent interest shown in U.K. farms by overseas buyers.

The Incorporated Society of Valuers and Auctioneers says: 'The effect of foreign buyers has been found to be minimal'. But, the society continued: 'It is evident that the new institutional landowners have been good landlords to their farming tenants.'

'This introduction of new capital into the industry is welcome and is considered beneficial.'

The society attacks the law on security of tenure for farm tenants, and says that it erodes the relationship between landlords and tenants.

'It is submitted that the right of family succession should be abandoned and legislation introduced to permit landowners to let farms on fixed-term basis,' it says.

One of the leading land management companies in Britain, Velocourt, which manages some 20,000 acres of farmland for institutions and private owners, suggests that institutional buyers will continue to bid strongly in the land market.

'Good quality land will be in strong demand, particularly from institutional buyers,' it says in a summary of its evidence. 'The price will bear much more relationship to returns than in the past and decisions will tend to be commercial rather than emotional.'

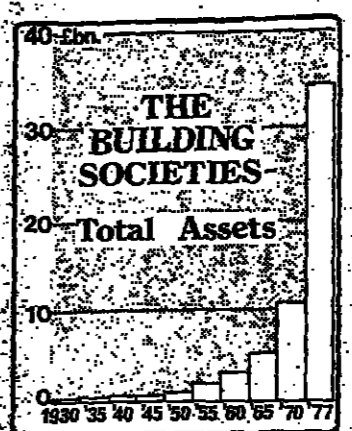
The company also expects a drop in the number of farms coming on to the market in the medium term with more becoming available as capital transfer tax begins to bite. When this happens, Velocourt forecasts, large estates in particular will be fragmented.

Its evidence shows that in the past 11 years, the need for tenants' capital on the holdings increased from £27 to £180 an acre or more.

'This has meant that the young would-be farmer must be strongly financed for him to enter the industry even as a tenant,' it says.

'The institutions have been able to bring their very considerable financial strength to relieve this situation. Being tax-exempt funds, the institutions can finance the working capital requirements at a lower interest yield to themselves.'

The company concludes that the trend in land ownership should not benefit the industry and the country. Food output will increase. And although capital taxation is considered far too burdensome, 'singling out agriculture for special treatment would be counter-productive.'



Aside from channelling large